



**HOUSE OF REPRESENTATIVES**

**H. No. 10284**

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BY REPRESENTATIVES LACSON, MARCOLETA, DALIPE, RIVERA, DE VENECIA, CRUZ (R.), GARCIA (D.), NISAY, CHAN, JAVIER, MANQUIZ, SUAN, DIMAPORO (S.A.), SALCEDA, SUANSING (M.A.), RODRIGUEZ (R.), PALMA, DAGOOC, CUA, ORDANES, AQUINO-MAGSAYSAY, BRIONES, BASCUG, VIOLAGO, CUARESMA, GORRICETA, ALBANO, GARIN, SUANSING (H.), FUENTEBELLA, LOYOLA, SINGSON-MEEHAN, LACSON-NOEL, DELOS SANTOS, HARESCO, QUIMBO, TARRIELA, CRUZ (A.), DAZA, SALIMBANGON, TAMBUNTING, MENDOZA, CO (E.), SINGSON (R.V.), FERRER (J.M.), MACEDA, BARONDA AND CHATTO

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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:*

CHAPTER I

TITLE AND DEFINITIONS

SECTION 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.

1 Through this system, the people shall have access to affordable credit and financial assistance, and shall  
2 be empowered to engage in entrepreneurial activities and other forms of self-sustenance.

3  
4 SEC. 3. *Definitions.* – As used in this Act:

5  
6 (a) *Community Paluwagan* refers to a small group of persons with residence or employment in  
7 a defined community, created in accordance with the provisions laid out in this Act and  
8 supervised by the *Community Paluwagan Administration* created in Section 4 of this Act,  
9 for the noble purpose of instilling a culture of entrepreneurship, while simultaneously  
10 promoting their financial welfare by providing them with a ready source of credit for  
11 provident and productive objectives; and

12  
13 (b) *Member* refers to a person who holds an account in a duly registered *paluwagan*, which is  
14 evidenced by a member's contribution (hulog) received or held in the usual course of  
15 business and for which it has given or is obligated to give credit to the account of the  
16 member.

## 17 18 CHAPTER II

### 19 20 *COMMUNITY PALUWAGAN ADMINISTRATION*

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

24  
25 SEC. 5. *The Community Paluwagan Administration Board and Its Composition.* – The  
26 *Community Paluwagan Administration* shall be managed by the *Community Paluwagan*  
27 *Administration Board*, hereinafter referred to as the Board, which shall consist of three (3) members,  
28 who are broadly representative of the public interest, appointed by the President of the Philippines upon  
29 consultation with and recommendation of non-government organizations, people's organizations, social  
30 welfare and development associations, and cooperatives. The President of the Philippines shall  
31 designate the Chairperson from among the members of the Board.

32  
33 Pending the appointments by the President of the Philippines to the Board, an interim board shall  
34 be established to oversee the operations of the Administration. The interim board shall consist of the  
35 Secretary of the Department of Trade and Industry (DTI), the Commissioner of the Insurance  
36 Commission, and the Chairperson of the Securities and Exchange Commission (SEC), or their  
37 designated representatives. The interim board shall have all the powers and duties of the Board until  
38 such time as the initial appointments have been made by the President of the Philippines. The Secretary  
39 of the DTI shall serve as the interim Chairperson.

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

- 3  
4 (a) Experience in Financial Services – In considering appointments to the Board under the  
5 preceding section, the President of the Philippines shall give consideration to individuals  
6 who, by virtue of their education, training, or experience relating to a broad range of  
7 financial services, financial services regulation, or financial policy, are especially qualified  
8 to serve in the Board;
- 9  
10 (b) Limitations – Not more than one member may be appointed to the Board from among  
11 individuals who, at the time of the appointment, are involved with any registered  
12 community *paluwagan* as a trustee, committee member, officer, or employee.

13  
14 SEC. 7. *Term of Office.* – All members of the Board shall have a term of six (6) years: *Provided,*  
15 That for the first appointees, the Chairperson shall hold office for six (6) years, one (1) member shall  
16 hold office for four (4) years, and one (1) member shall hold office for two (2) years. In no case shall  
17 there be re-appointments.

18  
19 In the event of death, resignation, or removal of a member, the successor shall only serve the  
20 unexpired portion of the term of the predecessor.

21  
22 SEC. 8. *Functions of the Board.* – A majority of the Board shall constitute a quorum. The Board  
23 shall have the following powers and functions:

- 24  
25 (a) Adopt such rules as it sees fit for the transaction of its business and to keep permanent and  
26 complete records and minutes of its acts and proceedings;
- 27  
28 (b) Require every person appointed or elected by any *paluwagan* to any position requiring the  
29 receipt, payment, or custody of money or other personal property owned by a *paluwagan*,  
30 or in its custody or control as collateral or otherwise, to give a bond in a corporate surety  
31 company duly registered in the Philippines. Any such bond or bonds shall be in a form  
32 approved by the Board with a view to providing surety coverage to the *paluwagan* with  
33 reference to loss by reason of acts of fraud or dishonesty, including forgery, theft,  
34 embezzlement, wrongful abstraction, or misapplication on the part of the person, directly  
35 or through connivance with others, and such other surety coverages as the Board may  
36 determine to be reasonably appropriate or as elsewhere required by this Act.

37  
38 Any such bond or bonds shall be in such an amount in relation to the money or other  
39 personal property involved or in relation to the assets of the *paluwagan* as the Board may  
40 from time to time prescribe by regulation for the purpose of requiring reasonable coverage.

1 In lieu of individual bonds, the Board may likewise approve the use of a form of schedule  
2 or blanket bond which covers all of the officers and employees of a *paluwagan* whose  
3 duties include the receipt, payment, or custody of money or other personal property for or  
4 on behalf of the *paluwagan*;

5  
6 (c) Expend such funds, enter into such contracts with public and private organizations and  
7 persons, make such payments in advance or by way of reimbursement, acquire and dispose  
8 of, by lease or purchase, real or personal property, without regard to the provisions of any  
9 other law applicable to executive or independent agencies of the Philippines, and perform  
10 such other functions or acts as it may deem necessary or appropriate to carry out the  
11 provisions of this Act, in accordance with the rules and regulations or policies established  
12 by the Board not inconsistent with this Act;

13  
14 (d) Submit an annual report to the Congress of the Philippines through the Committee on Micro,  
15 Small and Medium Enterprise Development of the House of Representatives and the  
16 Committee on Trade, Commerce and Entrepreneurship of the Senate of the Philippines. Such  
17 a report shall summarize the operations of the Administration and set forth such information  
18 as is necessary for the Congress to review the financial program approved by the Board;

19  
20 (e) Subject the financial transactions of the Administration to audit by the Commission on Audit  
21 which shall be conducted at the place or places where the accounts of the Administration are  
22 kept;

23  
24 (f) Recommend to the Administration the investment and reinvestment of such portions of the  
25 annual operating fees deposited under Section 51, Chapter XIII of this Act which the Board  
26 determines are not needed for current operations. Such investments may be made only in  
27 interest bearing securities of the Government of the Philippines. All income derived from  
28 such investments and reinvestments shall be deposited in an authorized government  
29 depository bank to the account of the Administration;

30  
31 (g) Determine the organizational structure and staffing pattern of the Administration in  
32 accordance with the Revised Compensation and Position Classification System subject to  
33 the evaluation and approval of the Department of Budget and Management (DBM) and in  
34 accordance with the civil service and other pertinent laws, rules, and regulations;

35  
36 (h) Formulate policies to promote savings, financial education, and financial services with  
37 digital capacities and connectivity to increase viability of an established *paluwagan*; and

- 1 (i) Provide technical assistance to duly registered *paluwagan* for the efficient management and  
2 operation of their respective systems. This shall include the conduct of specialized training  
3 programs that are carefully crafted to equip members with vital knowledge, skills, and  
4 competencies necessary for their business operations and for enhancing their entrepreneurial  
5 skills.

6  
7 SEC. 9. *Chairperson of the Board.* – The Chairperson shall be the spokesperson of the Board  
8 and shall represent the Board and the Administration in its official relations with other branches of the  
9 Government.

10  
11 The Chairperson shall determine each Board member’s area of responsibility and shall review  
12 such assignments bi-annually. It shall be the Chairperson’s responsibility to direct the implementation  
13 of the adopted policies and regulations of the Board.

14  
15 CHAPTER III  
16 COMMUNITY *PALUWAGAN*

17  
18 SEC. 10. *Creation of a Paluwagan.* – Any nine (9) or more persons with residence, occupation,  
19 employment, or activities in a defined community, who desire to form a *paluwagan* shall apply for  
20 registration with the Administration. The application shall specifically state the following:

- 21  
22 (a) Name of the *paluwagan*;  
23  
24 (b) Location of the proposed *paluwagan*;  
25  
26 (c) Names and addresses of the members;  
27  
28 (d) Proposed field of membership;  
29  
30 (e) Term of existence, not exceeding fifty (50) years, renewable for another fifty (50) years  
31 upon approval of the Administration;  
32  
33 (f) Articles of the *paluwagan*; and  
34  
35 (g) By-Laws.

36  
37 SEC. 11. *Application for Registration.* – In order to simplify the organization of the *paluwagan*,  
38 the Board shall from time to time cause to be prepared a form of application and a form of bylaws,  
39 consistent with this Act, which shall be used by applicants, and shall be supplied to them on request.

40  
41 Before any application for registration is approved, an appropriate investigation shall be made  
42 for the purpose of determining: a) whether the *paluwagan* conforms to the provisions of this Act; b) the  
43 general character and fitness of members; and c) economic viability of establishing the proposed  
44 *paluwagan*.

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

3  
4 The Board may prescribe the payment of a reasonable amount of fees for the processing of the  
5 application for registration under this section.

6  
7 SEC. 12. *Powers and Functions of a Paluwagan.* – Upon the approval of the registration of a  
8 *paluwagan*, a certificate shall be issued by the Administration. The certification shall grant the  
9 *paluwagan* the authority to exist as body corporate and as such, subject to the limitations herein  
10 contained, shall be vested with all of the powers and charged with all of the liabilities conferred and  
11 imposed by this Act, which includes the following powers:

- 12  
13 (a) Make contracts;  
14  
15 (b) Sue and be sued;  
16  
17 (c) Adopt and use a common seal and alter the same at pleasure;  
18  
19 (d) Purchase, hold, and dispose of property necessary, incidental, or beneficial to its operations;  
20  
21 (e) Apply for loans, the maturities of which shall not exceed thirty (30) years, except as  
22 otherwise provided herein, and extend lines of credit to its members, in accordance with  
23 the following:
- 24  
25 (1) Loans to members shall be made in conformity with the criteria established in the By-  
26 laws of the *paluwagan*, subject to the following:
- 27  
28 (i) A residential real estate loan on a family dwelling, that is or will be used as the  
29 principal residence of a *paluwagan* member, and which is secured by a first lien  
30 upon such dwelling, may have a maturity not exceeding thirty (30) years or such  
31 other limits as shall be set by the Board, subject to the rules and regulations of  
32 the Board;
- 33  
34 (ii) A loan or aggregate of loans to a trustee or member of the supervisory or credit  
35 committee of the *paluwagan* making the loan which exceeds Five million pesos  
36 (P5,000,000.00) shall be approved by the board of trustees of the *paluwagan*:  
37 *Provided*, That the said trustee or member has no participation in the approval of  
38 said loan;
- 39  
40 (iii) Loans to other members for which trustees or members of the supervisory or  
41 credit committee act as guarantor or endorser shall be approved by the board of  
42 trustees of the *paluwagan* when such loans standing alone or when added to any

1 outstanding loan or loans of the guarantor or endorser exceeds the amount of Five  
2 million pesos (P5,000,000.00);

3  
4 (iv) Loans shall be paid or amortized in accordance with the rules and regulations  
5 prescribed by the Board after taking into account the needs or conditions of the  
6 borrowers, the amounts and duration of the loans, the interests of the members,  
7 and such other factors as the Board deems relevant;

8  
9 (v) Loans shall be approved by the credit committee or a loan officer;

10  
11 (vi) The rate of interest is reasonable; and

12  
13 (vii) A self-replenishing line of credit to a borrower may be established to a stated  
14 maximum amount on certain terms and conditions which may be different from  
15 the terms and conditions established for another borrower.

16  
17 (2) A *paluwagan* shall not commit itself to make any loans for amounts in excess of the  
18 total of the following amounts:

19  
20 (i) cash available for loan purposes;

21  
22 (ii) cash which can be readily realized upon the sale or redemption of permissible  
23 investments made by the *paluwagan*; and

24  
25 (iii) credit available for loan purposes from government or private financing  
26 institutions.

27  
28 (3) The treasurer, cashier, paymaster, or employer of the office employing a member is  
29 required, notwithstanding the provision of any existing law, rule and regulation to the  
30 contrary, to make deductions from one's salary, wage, income, or retirement pension  
31 pursuant to the terms of one's loan, obligations, investments and all other deductions  
32 authorized by the member, to remit such deductions to the *paluwagan* concerned, and  
33 to collect such reasonable fee for one's services as may be authorized by rules  
34 promulgated by the Board.

35  
36 (f) Receive from its members payments, representing member's contribution (hulog) which  
37 shall be evidenced by a certificate of membership;

38  
39 (g) Invest its funds in accordance with the rules and regulations prescribed by the Board, in the  
40 total amount not exceeding 25 per centum (25%) of its paid-in and unimpaired capital;

41

- 1 (h) Borrow, in accordance with such rules and regulations as may be prescribed by the Board,  
2 from any source, in an aggregate amount not exceeding 50 per centum (50%) of its paid-in  
3 and unimpaired capital and surplus;
- 4 (i) Levy late charges and penalties, in accordance with the by-laws, for failure of members to  
5 promptly meet their obligations to the *paluwagan*;
- 6  
7 (j) Impress and enforce a lien upon a member's contribution (hulog), to the extent of any loan  
8 made and any dues or charges payable by such member;
- 9  
10 (k) In accordance with regulations prescribed by the Board:
- 11 (1) Sell to members negotiable checks, travelers checks, money orders, and other similar  
12 money transfer instruments, including international and domestic electronic fund  
13 transfers and remittance transfers;
- 14  
15 (2) Encash checks and money orders for members for a fee;
- 16  
17 (3) Issue credit cards; and
- 18  
19 (4) Engage existing digital platforms, or other financial technologies that may be devised  
20 in the future, to enhance or automate financial services for members;
- 21  
22 (l) In accordance with the rules and regulations prescribed by the Board, to purchase, sell,  
23 pledge, or discount or otherwise receive or dispose of, in whole or in part, any eligible  
24 obligations (as defined by the Board) of its members and to purchase from any liquidating  
25 notes made by individual members of the liquidating *paluwagan* at such prices as may be  
26 agreed upon by the board of trustees of the liquidating *paluwagan* and the board of trustees  
27 of the purchasing *paluwagan*: *Provided*, That no purchase may be made under authority of  
28 this paragraph if, upon the making of that purchase, the aggregate of the unpaid balances  
29 of notes purchased under authority of this paragraph would exceed five per centum (5%)  
30 of the unimpaired capital and surplus of the *paluwagan*;
- 31  
32 (m) Sell all or a part of its assets to another *paluwagan*, to purchase all or part of the assets of  
33 another *paluwagan* and to assume the liabilities of the selling *paluwagan* and those of its  
34 members subject to regulation of the Board;
- 35  
36 (n) Invest in securities that are offered and sold pursuant to Section 3, Chapter I of Republic  
37 Act (RA) No. 8799 or "The Securities Regulation Code", subject to such regulation as the  
38 Board may prescribe, including a regulation prescribing the minimum size of the issue at  
39 the time of initial distribution, minimum aggregate sales prices, or both;
- 40

- 1 (o) Exercise such incidental powers as shall be necessary or requisite to enable it to carry on  
2 effectively the business for which it is incorporated;
- 3 (p) Provide additional services for the mutual benefit of its members, upon approval of the  
4 Board: *Provided*, That such services involve no risk to the assets of the *paluwagan* or the  
5 funds of its members;
- 6  
7 (q) Notwithstanding any other provision of law, to accept investment from a minimum of nine  
8 (9) persons within the defined community for the purpose of augmenting resources and  
9 increasing liquidity to be able to provide credit line for the development of micro, small  
10 and medium-sized businesses. The contributors shall become members of the *paluwagan*,  
11 and shall be subject to the same terms and conditions of membership as other existing  
12 members. The *paluwagan* shall have the discretion to determine the terms and conditions  
13 of the investments, including the amount and the duration of the investment, and the  
14 potential return on the investment. The *paluwagan* shall also have the discretion to limit  
15 the amount of investments it will accept; and
- 16  
17 (r) Collect member's contribution (hulog) from its members upon admission, and distribute  
18 such member's contribution (hulog), plus any interest and earnings thereon, to the members  
19 after a certain period of time as share in the *paluwagan's* income. The *paluwagan* shall  
20 have the discretion to determine the frequency and amount of such distributions, based on  
21 the *paluwagan's* financial performance and other factors.

22  
23 No person, association, partnership or corporation shall do business, or hold itself out as doing  
24 business, as a *paluwagan*, or shall use the term "*paluwagan*" or any other title or name tending to give  
25 the public the impression that it is engaged in the operations and activities of a *paluwagan*, unless so  
26 authorized under this Act.

27  
28 SEC. 13. *Duties of the Paluwagan.* – In accordance with the rules prescribed by the Board,  
29 each *paluwagan* shall pay to the Administration an annual operating fee which may be composed of  
30 one or more charges identified as to the function or functions for which it is assessed.

31  
32 The fee assessed under this section shall be determined according to a schedule, or schedules,  
33 or other method determined by the Board to be appropriate, which gives due consideration to the  
34 expenses of the Administration in carrying out its responsibilities under this Act and the ability of the  
35 *paluwagan* to pay the fee.

36  
37 The Board shall, among other things, determine the periods for which the fee shall be assessed  
38 and the date or dates for the payment of the fee or increments thereof.

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

4  
5 CHAPTER IV  
6 MEMBERSHIP

7  
8 SEC. 14. *Membership*. – Each member of a *paluwagan* shall invest an amount which represents  
9 capital contribution, and pay the installments thereon, as may be prescribed by the Bylaws.

10  
11 SEC. 15. *Membership Field*. – The membership of any *paluwagan* shall be limited to a defined  
12 community, which shall be set out in the by-laws.

13  
14 SEC. 16. *Additional Membership Eligibility*. – No individual shall be eligible for membership  
15 in a *paluwagan* on the basis of the relationship of the individual to another person who is eligible for  
16 membership in the *paluwagan*, unless the individual is within the second degree of consanguinity of  
17 the member.

18  
19 SEC. 17. *Retention of Membership*. – Except as provided in this Act, once a person becomes a  
20 member of a *paluwagan* in accordance with this title, that person or organization may remain a member  
21 of that *paluwagan* until the person or organization chooses to withdraw from the membership.

22  
23 SEC. 18. *General Membership Meeting*. – The annual meeting of each *paluwagan* shall be held  
24 at such place as its bylaws shall prescribe. Special meetings may be held in the manner indicated in the  
25 bylaws.

26  
27 Unless the Articles or bylaws of the *paluwagan* provide for a greater number, a quorum shall  
28 consist of the majority of the members of the *paluwagan*. The members shall also be entitled to vote by  
29 proxy, when so authorized by the bylaws.

30  
31 SEC. 19. *Expulsion of Members*. – A member may be expelled for cause by a vote of the  
32 majority of all of the members of the board of trustees, ratified by the vote of the majority of all of the  
33 members of a *paluwagan* present at a special meeting called for the purpose, but only after opportunity  
34 has been given to the member to be heard.

35  
36 The board of trustees of a *paluwagan* may, by a majority vote, there being a quorum, adopt and  
37 enforce a policy with respect to expulsion from membership based on non-participation by a member  
38 in the affairs of the *paluwagan*.

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

7  
8 The term “cause” under this section shall mean a substantial or repeated violation of the  
9 membership agreement of the *paluwagan*; a substantial or repeated disruption, including dangerous or  
10 abusive behavior to the operations of a *paluwagan*; or fraud, attempted fraud, or other illegal conduct  
11 that a member has been convicted of in relation to the *paluwagan*, including the employees conducting  
12 business on behalf of the *paluwagan*.

13  
14 Expulsion of a member pursuant to this section shall not operate to relieve the member from  
15 any civil or criminal liability to the *paluwagan*.

16  
17 SEC. 20. *Due Process*. – Subject to the policy adopted herein, if a member shall be subject to  
18 expulsion, such member shall be notified in advance of the proceedings for expulsion, along with the  
19 reason for such expulsion. Such notice shall be provided in person, by mail to the member’s address,  
20 or, if the member has elected to receive electronic communications from the *paluwagan*, may be  
21 provided electronically.

22  
23 A member shall have thirty (30) days from the date of receipt of such notification to request for  
24 a hearing from the board of trustees of the *paluwagan*. If a member does not request for a hearing during  
25 the 30-day period as described, the member shall be expelled after the expiration of the 30-day period.

26  
27 If a member requests for a hearing during the 30-day period as described, the board of trustees  
28 of the *paluwagan* shall provide the member with a hearing within thirty (30) days from receipt of the  
29 request. After such hearing, the board of trustees of the *paluwagan* shall hold a vote within fifteen (15)  
30 days whether or not to expel the member. If a member is expelled pursuant to the decision of the Board,  
31 the notice of the expulsion of the member shall be provided to the member in person or by mail to the  
32 member’s address, in written form or, if the member has elected to receive electronic communications  
33 from the *paluwagan*, may be provided electronically.

34  
35 The expulsion of a member pursuant to this Act shall be done individually, on a case-by-case  
36 basis, and neither the Administration nor any *paluwagan* may expel a class of members.



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

- 2
- 3 (a) Act upon applications for membership or appoint employees from among the members of
- 4 the *paluwagan*, which shall include an internal auditor, and a loan officer;
- 5
- 6 (b) Provide adequate fidelity coverage for officers and employees having custody of or
- 7 handling funds according to regulations issued by the Board;
- 8
- 9 (c) Fill by appointment vacancies on the board of trustees until successors elected at the next
- 10 annual meeting shall have qualified;
- 11
- 12 (d) Have charge of investments including the right to designate an investment committee of
- 13 not less than two to act on its behalf;
- 14
- 15 (e) Subject to any limitations of this Act, determine the interest rates on loans, the security,
- 16 and the maximum amount which may be loaned and provided in lines of credit;
- 17
- 18 (f) If the bylaws so provide, appoint one or more loan officers and delegate to these officers
- 19 the power to approve or disapprove loans, lines of credit, or advances from lines of credit;
- 20
- 21 (g) Subject to the limitations of this title and the bylaws of the *paluwagan*, provide for the
- 22 hiring and compensation of officers and employees;
- 23
- 24 (h) If the bylaws so provide, appoint an executive committee of not less than three trustees to
- 25 act on its behalf and any other committees to which it can delegate specific functions;
- 26
- 27 (i) Prescribe conditions and limitations for any committee which it appoints;
- 28
- 29 (j) Review at each monthly meeting a list of approved or pending applications for
- 30 membership received since the previous monthly meeting together with such other related
- 31 information as it or the bylaws require;
- 32
- 33 (k) Provide for the furnishing of the written reasons for any denial of a membership
- 34 application to the applicant upon the written request of the applicant;
- 35
- 36 (l) Establish and maintain a system of internal controls consistent with the regulations of the
- 37 Administration;
- 38
- 39 (m) Establish lending policies; and
- 40
- 41 (n) Perform all other functions that are necessary and proper to carry out all the purposes and
- 42 powers of the *paluwagan*, subject to regulations issued by the Board.

1 CHAPTER VI  
2 COMMITTEES

3  
4 SEC. 26. *Committee Meetings.* – The committees created by the board of trustees shall hold  
5 such meetings as the business of the *paluwagan* may require, at least once a month.

6  
7 SEC. 27. *Functions of the Supervisory Committee.* – The supervisory committee shall have  
8 the following functions:

9  
10 (a) Make or cause to be made an annual audit, and submit a report of that audit to the board  
11 of trustees and a summary of the report to the members at the next annual meeting of the  
12 *paluwagan*;

13  
14 (b) Make or cause to be made such supplementary audits as it deems necessary or as may be  
15 ordered by the Board, and submit reports of the supplementary audits;

16  
17 (c) By a unanimous vote, recommend to the board of trustees the suspension of any officer of  
18 the *paluwagan* or any member of the credit committee, for a maximum period of thirty  
19 (30) days or until the next members' meeting, whichever comes first, at which meeting  
20 any such suspension shall be acted upon by the members; and

21  
22 (d) Call, by a majority vote, a special meeting of the members to consider any violation of  
23 this Act, the charter, or the bylaws, or any practice of the *paluwagan* deemed by the  
24 supervisory committee to be unsafe or unauthorized.

25  
26 Any member of the supervisory committee may be suspended by a majority vote of the board  
27 of trustees. The members shall decide, at a meeting held not less than seven (7) nor more than fourteen  
28 (14) days after any such suspension, whether the suspended committee member shall be removed from  
29 or restored to the supervisory committee.

30  
31 The supervisory committee shall cause the passbooks and accounts of the members to be  
32 verified with the records of the treasurer from time to time, at least once every two (2) years. As used  
33 in this section, the term “passbook” shall include any book, statement of account, or other record  
34 approved by the Board for use by the *paluwagan*.

35  
36 SEC. 28. *Functions of the Credit Committee.* – The Credit Committee shall have the following  
37 functions:

38  
39 (a) Appoint and delegate to loan officers the authority to approve applications; and

1 (b) Review all applications not approved by the loan officer. The approval of a majority of  
2 the members who are present at the meeting when such review is undertaken shall be  
3 required to reverse the loan officer's decision: *Provided*, That a majority of the full  
4 committee is present.

5  
6 CHAPTER VII  
7 REGULATION

8  
9 SEC. 29. *Regulation of the Paluwagan.* – The Board may prescribe rules and regulations for  
10 the administration of this Act. Any duly registered *paluwagan* shall be subject to such rules, regulations,  
11 and orders as the Board deems appropriate and, except as otherwise specifically provided in such rules,  
12 regulations, or orders, shall be vested with or subject to the same rights, privileges, duties, restrictions,  
13 penalties, liabilities, conditions, and limitations that would apply to all *paluwagan* under this Act.

14  
15 SEC. 30. *Power to Revoke and Suspend.* – The Board may suspend or revoke the registration  
16 of any *paluwagan*, or place the same in involuntary liquidation and appoint an authorized liquidating  
17 agent therefor, upon its finding that the organization is bankrupt or insolvent, or has violated any of the  
18 provisions of its charter, its bylaws, this Act, or any regulations issued thereunder.

19  
20 The Board, through such persons as it shall designate, may examine any *paluwagan* in  
21 voluntary liquidation and, upon its finding that such voluntary liquidation is not being conducted in an  
22 orderly or efficient manner or in the best interests of its members, may terminate such voluntary  
23 liquidation and place such organization in involuntary liquidation and appoint a liquidating agent  
24 therefor.

25  
26 Such liquidating agent shall, subject to the control and supervision of the Board and under  
27 such rules and regulations as the Board may prescribe, have the following powers and authorities:

28  
29 (a) Receive and take possession of the books, records, assets, and property of every  
30 description of the *paluwagan* in liquidation;

31  
32 (b) Sell, enforce collection of, and liquidate all such assets and property, to compound all bad  
33 or doubtful debts, and to sue in one's name or in the name of the *paluwagan* in liquidation,  
34 and defend such actions as may be brought against such liquidating agent or against the  
35 *paluwagan*;

36  
37 (c) Receive, examine, and pass upon all claims against the *paluwagan* in liquidation,  
38 including claims of members on member accounts;

1 (d) Make distribution and payment to creditors and members as their interests may appear;  
2 and

3  
4 (e) Execute such documents and papers and to do such other acts and things deemed necessary  
5 or desirable to discharge the duties hereunder.

6  
7 Subject to the control and supervision of the Board, and under such rules and regulations as  
8 the Board may prescribe, the liquidating agent of a *paluwagan* in involuntary liquidation shall cause  
9 notice to be given to creditors and members to present their claims and make legal proof thereof. Such  
10 notice shall be published once a week for three (3) successive weeks in a newspaper of general  
11 circulation in the place in which the *paluwagan* in liquidation maintained an office or branch for the  
12 transaction of business on the date it ceased unrestricted operations.

13  
14 Upon certification by the liquidating agent in the case of an involuntary liquidation, and upon  
15 such proof as shall be satisfactory to the Board in the case of a voluntary liquidation, that distribution  
16 has been made and that liquidation has been completed, as provided herein, the Board shall cancel the  
17 charter of such *paluwagan*. The corporate existence of the *paluwagan* shall continue for a period of  
18 three (3) years from the date of such cancellation of its charter. During this period, the liquidating agent,  
19 or the duly appointed successor, or such persons as the Board shall designate, may act on behalf of the  
20 *paluwagan* for the purpose of paying, satisfying, and discharging any existing liabilities or obligations,  
21 collecting and distributing its assets, and doing all other acts required to adjust and wind up its business  
22 and affairs, and may sue and be sued in its corporate name.

23  
24 After the expiration of five (5) years from the date of cancellation of the charter of a  
25 *paluwagan*, the Board may, in its discretion, destroy any or all books and records of such *paluwagan* in  
26 its possession or under its control.

## 27 28 CHAPTER VIII

### 29 PALUWAGAN INSURANCE FUND

30  
31 SEC. 31. *Paluwagan Insurance*. – The Board, as hereinafter provided, shall insure the member  
32 accounts of all *paluwagan* to the extent of amount as they may determine.

33  
34 Applications for such insurance shall be in such form as the Board shall provide and shall  
35 contain the following terms to be agreed upon by the applicant:

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

1 (b) To permit and pay the reasonable cost of such examinations as, in the judgment of the  
2 Board, may from time to time be necessary for the protection of the fund and of other  
3 insured *paluwagan*;

4  
5 (c) To provide protection and indemnity against burglary, defalcation, and other similar  
6 insurable losses, of the type, in the form, and in an amount at least equal to that required  
7 by the laws under which the *paluwagan* is organized and operates;

8  
9 (d) To maintain such special reserves as the Board, by regulation or in special cases, may  
10 require for protecting the interest of members or to assure that all insured *paluwagan*  
11 maintain regular reserves as may be required by the Board;

12  
13 (e) To pay the premium charges for insurance imposed by this Chapter; and

14  
15 (f) To comply with the requirements of this chapter and of regulations prescribed by the  
16 Board pursuant thereto.

17  
18 Before approving the application of any *paluwagan* for insurance of its member accounts, the  
19 Board shall consider the following:

20  
21 (a) The history, financial condition, and management policies of the applicant;

22  
23 (b) The economic advisability of insuring the applicant without undue risk of the fund;

24  
25 (c) The general character and fitness of the applicant's management;

26  
27 (d) The convenience and needs of the members to be served by the applicant; and

28  
29 (e) Whether the applicant is a *paluwagan* organized for the purpose of creating a source of  
30 credit for entrepreneurial or productive purposes.

31  
32 The Board shall disapprove the application of any *paluwagan* for insurance of its member  
33 accounts if it finds that its reserves are inadequate, its financial condition and policies are unsafe or  
34 unsound, its management is unfit, insurance of its member accounts would otherwise involve undue  
35 risk to the fund, or its powers and purposes are inconsistent with the promotion of a culture of  
36 entrepreneurship, and the creation of a source of credit for provident or productive purposes.

37  
38 Upon the approval of any application for insurance, the Board shall notify the applicant and  
39 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.

1           SEC. 32. *Insurance Premium Charges.* – All *paluwagan* shall, at such times as the Board  
2 prescribes, pay to the fund a premium charge of one-fifth of one per centum (1/5 of 1%) of Total  
3 Guaranteed Contribution of the *paluwagan*.

4  
5           The term “Guaranteed Contributions” shall pertain to funds enjoying insurance coverage as  
6 prescribed by the provisions delineated in this section. These contributions shall yield guaranteed  
7 income and offer inherent withdrawal flexibility for members.

8  
9           Minimum Fixed Contribution shall be maintained by all *paluwagan* and shall refer to funds  
10 not covered by the insurance coverage. It shall not be withdrawable until the membership to the  
11 *paluwagan* is terminated.

12  
13           SEC. 33. *Payment of Insurance.* – Payment of an insured account to any person by the  
14 Administration shall discharge the Administration of the liability of insurance. The Administration may  
15 withhold payment of such portion of the insured amount of any member in a closed *paluwagan* as may  
16 be required to provide for the payment of any liability to the closed *paluwagan* or its receiver, which is  
17 not offset against the claim due from such *paluwagan*, pending the determination and payment of such  
18 liability by such member or any other person liable therefor.

19  
20           SEC. 34. *Prohibitions on Insured Paluwagan.* – No insured *paluwagan* may be sponsored by  
21 or accept financial support, directly or indirectly, from any government-sponsored enterprise. This  
22 provision shall not be construed as prohibiting any employee of a government-sponsored enterprise  
23 from becoming a member of a *paluwagan*.

24  
25           SEC. 35. *Reports of Condition.* – Each insured *paluwagan* shall make reports of condition to  
26 the Board upon dates which shall be selected by them. Such reports of condition shall be in such form  
27 and shall contain such information as the Board may require.

28  
29           The reporting dates selected for reports of condition shall be the same for all insured  
30 *paluwagan* except that when any of said reporting dates is a nonbusiness day for any *paluwagan*, the  
31 preceding business day shall be its reporting date.

32  
33           The total amount of the member accounts of each insured *paluwagan* as of each reporting date  
34 shall be reported in such reports of condition in accordance with regulations prescribed by the Board.  
35 Each report of condition shall contain a declaration by the president, vice president, treasurer, or any  
36 other officer designated by the board of trustees of the reporting *paluwagan* to make such declaration,  
37 that the report is true and correct to the best of such officer’s knowledge and belief.

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

5  
6 The Board may call for such other reports as it may from time to time require. The Board may  
7 require reports of condition to be published in such manner, not inconsistent with any applicable law,  
8 as it may direct.

9  
10 Reports required under this section shall be so prepared that they can be used for insurance  
11 purposes.

12  
13 SEC. 36. *Unsafe and Unsound Practice.* – If the Board shall find that any unsafe or unsound  
14 practice or violation specified in this Act has been established and has not been corrected within the  
15 time above prescribed by the Board in which to make such correction, the Board may order that the  
16 insured status of the *paluwagan* be terminated on a date subsequent to such finding after due notice and  
17 hearing. The Administration may publish a notice of such termination and the *paluwagan* shall give  
18 notice of such termination to each of their members at the last address of record on the books of the  
19 *paluwagan*, in such a manner and at such a time as the Board may find to be necessary and may order  
20 for the protection of the members.

21  
22 The Board may treat the failure of any insured *paluwagan* to obtain an outside, independent  
23 audit for any fiscal year for which such audit is required as an unsafe or unsound practice.

24  
25 SEC. 37. *Accounting.* – Accounting principles applicable to reports or statements required to  
26 be filed with the Board by each insured *paluwagan* shall be uniform and consistent with generally  
27 accepted accounting principles.

28  
29 SEC. 38. *Report to an Independent Auditor.* – Each insured *paluwagan* which has engaged the  
30 services of an independent auditor to audit such institution for the past two (2) years shall transmit to  
31 such auditor a copy of the most recent report of condition made by such *paluwagan*, and a copy of the  
32 most recent report of examination received by such credit union.

33  
34 SEC. 39. *Requirements Governing Insured Paluwagan.* – Insured *paluwagan* must meet net  
35 worth standards, lending limits, and investment restrictions to be eligible for insurance. The  
36 Administration shall have the power to establish and enforce these standards and restrictions.

37  
38 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.



1 personal, or any activity conducted for profit, regardless of the disposition thereof, is  
2 subject to the corresponding internal revenue taxes imposed under the National Internal  
3 Revenue Code (NIRC) of 1997, as amended: *Provided, further*, That the exemption from  
4 income tax shall not include those taxes wherein the *paluwagan* is only constituted as the  
5 withholding or remitting agent;

6  
7 (b) Interest on member's contribution with any *paluwagan* as well as the shares of its members  
8 from the net income of the *paluwagan* shall be exempt from income tax;

9  
10 (c) Any *paluwagan* duly registered with the Administration shall be exempt from the payment  
11 of value-added tax and documentary stamp tax, in relation with its operations and  
12 transactions with members;

13  
14 (d) Any *paluwagan*, regardless of the amount of accumulated reserves and undivided net  
15 savings shall be exempt from payment of local taxes. Fees and charges assessed by the  
16 cities or municipalities on the application of mayor's or local business permits, and other  
17 licenses and approvals shall in no case exceed Three thousand pesos (P3,000.00).

## 18 19 CHAPTER X

### 20 CONFIDENTIAL NATURE OF CAPITAL CONTRIBUTIONS

21  
22 SEC. 47. *Prohibition Against Inquiry into or Disclosure of Contributions.* – All capital  
23 contributions or all money deposited with a *paluwagan* in the Philippines are hereby considered as of  
24 an absolutely confidential nature and may not be examined, inquired or looked into by any person,  
25 government official, bureau or office, except upon written permission of the member, or in cases of  
26 impeachment, or upon order of a competent court in cases of bribery or dereliction of duty of public  
27 officials, or in cases where the money deposited or invested is the subject matter of litigation.

28  
29 It shall be unlawful for any official or employee of a *paluwagan* to disclose to any person  
30 any information concerning said capital contributions, except in the cases mentioned in the preceding  
31 paragraph of this Section. Any official or employee of an Association who violates this section shall be  
32 punished under RA 1405 or the Law on Secrecy of Bank Deposits, as amended.

## 33 34 CHAPTER XI

### 35 OFFENSES AND PENALTIES

36  
37 SEC. 48. *Penal Clause.* – Penalties shall be imposed for violation of the following prohibited  
38 acts:

1 (a) Refusal to Make Reports or Permit Examination. – Any trustee, officer, or employee of  
2 any *paluwagan* within the purview of this Act who, being required in writing by the  
3 Administration, willfully refuses to file the required report or permit any lawful  
4 examination into the affairs of such *paluwagan* shall be punished by a fine of not less  
5 than Fifty thousand pesos (P50,000.00) nor more than One hundred thousand pesos  
6 (P100,000.00) or by imprisonment of not less than one (1) year nor more than five (5)  
7 years, or both, in the discretion of the court.

8  
9 (b) False Statement. - The willful making of a false or misleading statement on a material  
10 fact before the Administration or any of its authorized representatives shall be punished  
11 by a fine of not less than One hundred thousand pesos (P100,000.00) nor more than Two  
12 hundred thousand pesos (P200,000.00), or by imprisonment of not more than (5) years,  
13 or both, at the discretion of the court.

14  
15 (c) Proceedings upon Violation of this Act and Other Laws, Rules, Regulations, Orders or  
16 Instructions. - Whenever a *paluwagan* willfully violates any of the provisions of this Act  
17 or any other order, instruction, rule or regulation issued by the Administration, the person  
18 or persons responsible for such violation shall, unless otherwise provided in this Act, be  
19 punished by a fine of not less than Fifty thousand pesos (P50,000.00) nor more than Five  
20 hundred thousand pesos (P500,000.00) or by imprisonment of not less than two (2) years  
21 nor more than ten (10) years, or both, at the discretion of the court.

22  
23 SEC. 49. *Administrative Sanctions.* – Without prejudice to the criminal sanctions against the  
24 culpable persons, the Administration may, at its discretion, impose upon any *paluwagan* their trustees  
25 and/or officers, for any willful violation of its charter or by-laws, willful delay in the submission of  
26 reports or publications thereof as required by law, rules and regulations; any refusal to permit  
27 examination into the affairs of the *paluwagan*, any willful making of a false or misleading statement to  
28 the Board or its committees or its representatives; any willful failure or refusal to comply with, or  
29 violation of any law, or any order, instruction or regulation issued by the Board, or any commission of  
30 irregularities, or conducting business in an unsafe or unsound manner as may be determined by the  
31 Board, the following administrative sanctions, whenever applicable:

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

36  
37 (b) Suspension of operations or authority to accept new contributions, grant new loans, and  
38 make new investments;

1 (c) Suspension of authority to enter into new contracts; and

2  
3 (d) Revocation of registration;

4  
5 Resignation or termination from office shall not exempt such trustee or officer from  
6 administrative or criminal sanctions.

7  
8 The Board may, whenever warranted by circumstances, preventively suspend any trustee or  
9 officer of a *paluwagan* pending an investigation: *Provided*, That should the case be not finally decided  
10 by the Administration within a period of one hundred twenty (120) days after the date of suspension,  
11 said trustee or officer shall be reinstated: *Provided, further*, That when the delay in the disposition of  
12 the case is due to the fault, negligence or petition of the trustee or officer, the period of delay shall not  
13 be counted in computing the period of suspension herein provided.

14  
15 Whether or not there is an administrative proceeding, if the institution, trustees, or officers  
16 concerned continue with or otherwise persist in the commission of the indicated practice or violation,  
17 the Board may issue an order requiring the institution, trustees, or officers concerned to cease and desist  
18 from the indicated practice or violation, and may further order that immediate action be taken to correct  
19 the conditions resulting from such practice or violation. The cease and desist order shall be immediately  
20 effective upon service on the respondents.

21  
22 CHAPTER XII

23 CAPACITY-BUILDING

24  
25 SEC. 50. *Capacity-Building*. – The Board is authorized to conduct directly, provide grants to  
26 or enter into contracts with colleges or universities, state or local educational agencies, or other  
27 appropriate public or private non-profit organizations to implement programs for the training of persons  
28 engaged, or preparing to engage, in the operation of a *paluwagan*, and in related counseling programs.

29  
30 The Board is likewise authorized to establish a program of experimental, developmental,  
31 demonstration, and pilot projects, either directly or by grants to public or private nonprofit  
32 organizations, or by contracts with such organizations or other private organizations, designed to  
33 promote more effective operation of a *paluwagan*, and related consumer counseling programs.

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

36  
37 Additionally, the Board shall, in collaboration with public and private sector partners as  
38 needed, conduct microcredit, financial literacy, and entrepreneurship programs for the public on a  
39 continuing basis.

1 CHAPTER XIII  
2 MISCELLANEOUS PROVISIONS

3  
4 SEC. 51. *Utilization of Registration and Annual Fees for the Community Paluwagan*  
5 Administration. –

- 6  
7 (a) All registration fees, annual fees, and other associated charges collected from  
8 *paluwagan* groups shall be designated as 'Initiation Fund' herein, to serve as the initial  
9 fund to establish the Administration.
- 10  
11 (b) The Initiation Fund shall be dedicated to the operational and administrative needs of  
12 the Administration, including staff salaries, capacity building, regulatory oversight, and  
13 program development.
- 14  
15 (c) The Administration shall prudently manage and utilize the Initiation Fund in a  
16 transparent and accountable manner, adhering to all relevant financial and  
17 administrative regulations.
- 18  
19 (d) The Administration shall regularly report to the appropriate oversight committee  
20 regarding the status, utilization, and impact of the Initiation Fund.

21  
22 SEC. 52. *Implementing Rules and Regulations.* – There shall be a Committee of five (5)  
23 members which shall formulate the rules and regulations necessary to implement the provisions of this  
24 Act within sixty (60) days from the approval of this Act.

25  
26 The Committee shall be composed of the following:

- 27  
28 (a) DTI Secretary as Chairperson;  
29  
30 (b) SEC Commissioner as Vice-Chairperson;  
31  
32 (c) Representative from the academe who must be a financial expert as member;  
33  
34 (d) Representative from a financial institution, whether public or private as member; and  
35  
36 (e) Lawyer as member.

37  
38 The Secretary of the DTI and the Commissioner of the SEC shall have the authority to  
39 appoint a designated representative.

40  
41 The representatives from the academe and financial institution, and the lawyer shall be  
42 appointed by the Chairperson upon recommendation of organizations or advocates of financial  
43 inclusion. The rules and regulations issued pursuant to this section shall take effect thirty (30) days after  
44 its publication in a newspaper of general circulation.

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

5  
6           SEC. 54. *Repealing Clause.* – All laws, decrees, proclamations, issuances, or ordinances  
7 that are contrary to or inconsistent with the provisions of this Act are hereby amended, repealed or  
8 modified accordingly.

9  
10          SEC. 55. *Effectivity.* – This Act shall take effect fifteen (15) days after its publication in the  
11 *Official Gazette* or in a national newspaper of general circulation.

Approved,