

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

FIFTEENTH CONGRESS

First Regular Session

House Bill No. 1235

INTRODUCED BY REPRESENTATIVE ARTHUR C. YAP

EXPLANATORY NOTE

According to a recent news article, there are now four million Filipinos holding around six and half million credit cards. This number approximates about five percent of the entire population.

And, due to the aggressive marketing of credit card companies, this number is expected to rise in the very near future. Consumers are being constantly wooed, by promos and other marketing gimmicks, to avail of and use their credit cards for their everyday purchases.

Unfortunately, a big percentage of these credit card holders do not possess the discipline in the use of their credits. Instead of being mere substitutes for the use of cash, the credit cards are being used as an extension of cash or money, they presently do not have.

Consequently, these people, (who are mostly fixed income earners with no additional money or provisioning for debt servicing) end up in debt. And, with the credit card companies imposition of very prohibitive, exorbitant and unconscionable interest rates, penalty and other finance charges, these credit card users dig themselves a grave of debt (or death for that matter).

In the fairly recent case of ILEANA DR. MACALINAO versus BANK OF THE PHILIPPINE ISLANDS, decided on September 17, 2009, the Supreme Court had the opportunity to rule on the issue of the very prohibitive interest rates and penalty charges of credit card companies.

In the said case, a complaint was filed by BPI against Macalinao. In its complaint, BPI prayed for payment of the Macalinao's liability for the use of the credit card, including interest and penalty charges at the rate of 9.25% per month or 111% per annum.

In its Decision, the Supreme Court found it equitable to reduce the interest rate to 1% per month and the penalty charge, also at 1% per month, or a total of 2% per month, or 24% per annum.

The Court mentioned that the interest rates and penalty charges, as stipulated under the "Terms and Conditions Governing the Issuance and Use of the BPI Credit Card", was excessive and unconscionable. It cited its prior ruling in the case of Chua vs. Timan wherein it was ruled that:

The stipulated interest rates of 7% and 5% per month imposed on respondents' loans must be equitably reduced to 1% per month or 12% per annum. We need not unsettle the principle we had affirmed in a plethora of cases that stipulated interest rates of 3% per month and higher are excessive, iniquitous, unconscionable and exorbitant. Such stipulations are void for being contrary to morals, if not against the law. While C.B. Circular No. 905-82, which took effect on January 1, 1983, effectively removed the ceiling on interest rates for both secured and unsecured loans, regardless of maturity, nothing in the said circular could possibly be read as granting carte blanche authority to lenders to raise interest rates to levels which would either enslave their borrowers or lead to a hemorrhaging of their assets.

Despite this Supreme Court ruling, it should be noted that most credit card companies continue to charge interest rates and penalty charges which are higher than the rates prescribed therein.

This draft measure would propose to limit the imposition of credit card interest rate to 1% per month or 12% per annum. It would likewise impose a limit of 1% penalty charge per month or 12% per annum.

More important, it would declare as criminal offense the imposition of interest rates and penalties, higher than the above mentioned limits. The penalties range from the payment of fine, imprisonment and even the suspension or revocation of their license to operate as a credit card company.

With the passage of this measure, consumers would be protected from unscrupulous credit card companies.

In view of the foregoing, the immediate passage of the bill is earnestly sought.

A handwritten signature in black ink, appearing to be 'AY', with a long, sweeping horizontal line extending to the right.

ARTHUR C. YAP
Representative

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AN ACT
PROTECTING CREDIT CARD USERS, LIMITING INTEREST
RATES AND PENALTY CHARGES, PROVIDING PENALTIES
FOR VIOLATIONS THEREOF, AND FOR OTHER PURPOSES

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

1 **SECTION 1. *Short Title.*** – This Act shall be known as the “Credit Card Users
2 Protection Act of 2010”.

3 **SECTION 2. *Declaration of Policy.*** – It hereby declared the policy of the State
4 to protect consumers, particularly credit card users from prohibitive, unconscionable and
5 exorbitant interest rates, penalty and other finance charges.

6 **SECTION 3. *Definition of Terms.*** For purpose of this Act, the following terms
7 shall mean:

8 a. Interest Rate – amount paid by the user or consumer for the use of the credit
9 card in purchasing goods or services;

10 b. Penalty Charge – amount, in addition to interest, imposed on the credit card
11 holder for non-payment of an account within a prescribed period;

12 c. Finance Charge – amount, other than interest rate and penalty charge, imposed
13 on the indebtedness for the use of the credit card, excluding surcharges or

1 transaction charges for the use of the cards, membership fees, cash advance
2 fees and other unrelated fees.

3 **SECTION 4. *Limit on Interest Rates, Penalty and other Finance Charges.*** Any
4 provision of law to the contrary notwithstanding, credit card companies shall be allowed
5 to impose a maximum of one percent (1%) per month or twelve percent (12%) per annum
6 for interest rates and one percent (1%) per month or twelve percent (12%) per annum for
7 penalty charges, compounded annually.

8 No other finance charges shall be allowed except reasonable attorney's fees and
9 costs of collection.

10 **SECTION 5. *Penalties*** - Any credit card provider who shall be found guilty of
11 violating any of the provisions of this Act shall be punished with:

- 12 a. imprisonment ranging from thirty (30) days to six (6) months or fine ranging from
13 One Thousand Pesos (P1,000.00) to Ten Thousand Pesos (P10,000.00), or both, at
14 the discretion of the Court, and suspension of business permit and/or license to
15 operate as a credit card company for a period of thirty (30) days for the first
16 offense;
- 17 b. imprisonment ranging from six (6) months and one (1) day to two (2) years or
18 fine ranging from Twenty Thousand Pesos (P20,000.00) to Fifty Thousand Pesos
19 (P50,000.00), or both, at the discretion of the Court, and suspension of business
20 permit and/or license to operate as a credit card company for a period of six (6)
21 months for the second offense;
- 22 c. imprisonment ranging from two (2) years and one (1) day to six (6) years, or fine
23 of ranging from One Hundred Thousand Pesos (P100,000.00) to Five Hundred
24 Thousand Pesos (P500,000.00), or both, at the discretion of the Court, and
25 permanent revocation of business permit and/or license to operate as a credit card
26 company for subsequent offenses.

27 If the establishment is a juridical person, the penalty of imprisonment shall be
28 imposed against the responsible officer.

1 **SECTION 6. *Separability Clause.*** - If any provision of this Act, or any parts
2 thereof, is declared unconstitutional, the same shall not affect the validity and effectivity
3 of the other portions.

4 **SECTION 7. *Repealing Clause.*** - All laws, executive orders, presidential
5 decrees, proclamations, rules, regulations, issuances and enactments of parts thereof
6 inconsistent with this Act are hereby repealed or modified accordingly.

7 **SECTION 8. *Effectivity.*** - This Act shall take effect fifteen (15) days from its
8 complete publication in the Official Gazette or in a newspaper of general circulation in
9 the Philippines, whichever comes earlier.

APPROVED.