

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

FIFTEENTH CONGRESS
First Regular Session

HOUSE BILL No. **4917**

Introduced by Rep. **TEDDY A. CASIÑO**

EXPLANATORY NOTE

This bill seeks to set a ceiling on interest rates charged by lending institutions for loans or any forbearance of money, goods or credit and to prescribe penalties for violation thereof.

Republic Act (RA) No. 2655, otherwise known as the "*Usury Law*," was enacted in 1916. It was amended by Presidential Decree No. 116, which provides, among others, that the legal rate of interest for the loan or forbearance of any money, goods or credits, where such loan or renewal or forbearance is secured in whole or in part by a mortgage upon real estate the title to which is duly registered, in the absence of express contract as to such rate of interest, shall be 12% per annum. Any amount of interest paid or stipulated to be paid in excess of that fixed by law is considered usurious, therefore, unlawful.

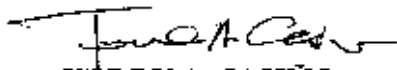
In December 1982, however, then Central Bank of the Philippines, now renamed *Bangko Sentral ng Pilipinas*, issued Circular No. 905, Series of 1982 (78 Off. Gaz. 7336) effectively suspending RA 2655 by removing the ceiling on interest rates. In the case of *Liam Law vs. Olympic Saw Mill* (G.R. L-30771, May 28, 1984), the Supreme Court held that the Usury Law is legally in-existent, hence, higher interest can be charged as lender and borrower may agree upon the rate of interest. Thus, with the suspension of the Usury Law and the removal of interest ceilings, banks and other lending institutions are free to impose higher interest rates that would cause the amount of debt to balloon to an outrageous amount more than three times the principal debt. On average, lending institutions charge 3.75% or even 10% interest rate per month which are unconscionable, oppressive and prejudicial to the economic interest of the public.

To stop this nefarious practice, this bill proposes that an interest rate of one percent (1%) per month or twelve percent (12 %) per annum be charged on all loans or any forbearance of money, goods or credit, such rate being deemed to be appropriate and equitable as enunciated in the recent case of *Mavalinao vs. Bank of Philippine Islands* (G.R. No. 175490, September 17, 2009). In that case, the Supreme Court held that interest rates of three percent (3%) per month and higher are iniquitous, unconscionable and exorbitant and therefore void. The Court ruled, in part, that an interest rate of one percent (1%) per month or twelve percent (12%) per annum is more appropriate and equitable.

Hopefully, by setting the said ceiling on interest rates, the people who, out of desperation agree to pay exorbitant interest to avail a loan, will be helped and protected. It will encourage and help small investors and entrepreneurs to apply for loans and will help level the playing field between big and small investors. It will also discourage and punish unscrupulous individuals who take advantage of the misfortune of others.

In view of the foregoing, immediate approval of this bill is earnestly requested.

Approved,


TEDDY A. CASINO
Bayan Muna Party-list

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HOUSE BILL No. **4917**

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AN ACT
SETTING A CEILING ON INTEREST RATES CHARGED BY LENDING
INSTITUTIONS FOR LOANS OR ANY FORBEARANCE OF MONEY, GOODS
OR CREDIT AND PRESCRIBING PENALTIES FOR VIOLATION THEREOF

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

SECTION 1. *Short Title.* – This Act shall be known as the “*Interest Rates Regulation Act.*”

SECTION 2. *Declaration of Policy.* – It is the policy of the State to protect, promote and regulate the economic interest of the people. Toward this end, this Act seeks to set a reasonable ceiling on interest rates charged by lending institutions on loans or forbearance of any money, goods or credit.

SECTION 3. *Ceiling on Interest Rates on Business Transactions.* – All lending institutions shall charge an interest rate of not more than one percent (1%) per month or twelve percent (12%) per annum on loans or any forbearance of money, goods or credit.

For purposes of this Act, “*lending institutions*” shall include, but not limited to, banks, credit card companies, pawnshops, savings and loan associations, credit unions, cooperatives or private individuals.

SECTION 4. *Penalties.* – Any person who shall violate Section 3 of this Act shall, upon conviction, be punished by imprisonment of not less than three (3) months but not more than six (6) months or a fine of not less than Ten thousand pesos (P10,000.00) but not more than Fifty thousand pesos (P50,000.00), or both such imprisonment and fine, at the discretion of the court.

In case of a partnership, association, corporation or any juridical person, the penalty shall be imposed upon the president, treasurer or any other officer or person responsible for the violation. In addition, the license to operate the business establishment shall be suspended for one (1) year for the first offense and cancelled for the second offense.

If the offender is an alien, he shall, after service of sentence, be deported immediately without further proceedings.

SECTION 5. *Implementing Rules and Regulations.* – The *Bangko Sentral ng Pilipinas* shall, within sixty (60) days from the effectivity of this Act, issue rules and regulations as may be necessary for the effective implementation of this Act.

SECTION 6. *Repealing Clause.* -- All laws, decrees, orders, rules and regulations, and other issuances or parts thereof inconsistent with this Act are hereby repealed or modified accordingly.

SECTION 7. *Effectivity.* – This Act shall take effect fifteen (15) days after its publication in the *Official Gazette* or in two (2) national newspapers of general circulation.

Approved,