

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

SIXTEENTH CONGRESS
First Regular Session

HOUSE BILL NO. **3618**



Introduced by Representative Giorgidi B. Aggabao

EXPLANATORY NOTE

The present law on usury, R.A. No. 2655, enacted during the American occupation, is a dead statute. This law has been rendered moribund by P.D.s 116, 358, and 1684, which empowered the Monetary Board of the Bangko Sentral Ng Pilipinas to prescribe the interest rates on loans and forbearances over and above the prescribed rate fixed in the original law. Unfortunately, the Monetary Board has not done so, opting instead to leave the interest rates to market forces, that is, to whatever the parties may agree to stipulate. Consequently, many debtors especially those in the cusp of emergencies are asked to pay interests at 10% per month, or a whopping 120% per annum, owing to the cupidity of most creditors.

This bill primarily seeks to put a cap on interest rate by ensuring that the allowable interest a lender may collect, shall be based exclusively on a benchmark interest rate. As proposed, the interest rate is fixed at 3% above the 91-day treasury bill rate (for secured loans) and 5% above the 91-day treasury bill rate (for unsecured loans). Additionally, this bill seeks to cover interests on credit cards. By using a fixed benchmark, the rate of interest is guaranteed to be competitive and attuned to the obtaining economic realities.

It is hoped that this bill will help the small borrowers, primarily the farmers who rely solely on credit for capital. It is also hoped, that this bill will prevent borrowers being trapped in the quagmire of debt by making interest rates reasonable and humane.

In view of the foregoing, early passage of this bill is earnestly requested.


GIORGIDI B. AGGABAO

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AN ACT
PRESCRIBING THE RATES OF INTEREST UPON LOANS AND
FORBEARANCES BY AMENDING CERTAIN SECTIONS OF REPUBLIC ACT
NO. TWENTY SIX HUNDRED AND FIFTY FIVE, AS AMENDED,
OTHERWISE KNOWN AS THE USURY LAW

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

Section 1. Section 1 of Republic Act No. Twenty Six Hundred and Fifty Five (R.A. 2655), as amended, is hereby amended to read as follows:

"Sec. 1. The rate of interest for the loan of forbearance on any money, goods, or credits or **CHARGES ON CREDIT CARDS AND OTHER CASH ADVANCE ARRANGEMENTS**, and the rate allowed in judgments, in the absence of express contract as to such rate of interest shall be **TWELVE (12 %)** percent per annum or such rate as may be prescribed by the monetary Board of the **BANGKO SENTRAL NG PILIPINAS** for that purpose in accordance with the authority hereby granted: **PROVIDED, THAT SAID MAXIMUM RATE SHALL NOT BE MORE THAN THREE PERCENTAGE (3 %) POINTS ABOVE THE NINETY ONE (91) DAY TREASURY BILL RATES WITHIN THE QUARTER PRECEDING THE MONETARY BOARD'S IMPOSITION OF SAID MAXIMUM RATE.**"

SEC. 2. Section 2 of Republic Act No. Twenty Six Hundred Fifty Five (R.A. 2655), as amended, is hereby amended to read as follows:

"Sec. 2. No person or corporation shall directly or indirectly take or receive **OR AGREE TO CHARGE** in money or other property, real or personal

or chooses in action, at a higher rate of interest or greater sum or value, including commissions, premiums, fines, penalties, **CHARGES AND OTHER SURCHARGES**, for the loan or forbearance of money, goods, credits, **OR CASH ADVANCES OR RENEWAL THEREOF**, where such loan or forbearance is secured in whole or in part by a mortgage upon real estate the title to which is duly registered, or by any document conveying such real estate or an interest therein **OR BY CHATTEL MORTGAGE**, than **FIFTEEN PERCENT (15%)** per annum or such rate **AS MAY BE AGREED UPON BY THE PARTIES PROVIDED IT IS NOT BE MORE THAN THREE (3%) PERCENTAGE POINTS ABOVE THE NINETY ONE (91) DAY TREASURY BILL RATES WITHIN THE PRECEDING QUARTER**: Provided, further, that the rate of interest under this section or the maximum rate of interest that may be **AGREED UPON BY THE PARTIES** may likewise apply to loans secured by other types of security as may be specified by the Monetary Board."

SEC. 3. Section 3 of Republic Act No. Twenty Six Hundred Fifty Five (R.A. 2655), as amended, is hereby amended to read as follows.

"Sec. 3. No person or corporation shall directly or indirectly demand, take, receive or agree to charge in money or other property, real or personal, a higher rate or greater sum or value for the loan or forbearance of money, goods, or **CHARGES ON credits, CREDIT CARDS AND OTHER CASH ADVANCE ARRANGEMENTS**, where such loans or forbearance is not secured as provided in section two(2) hereof, than **SIXTEEN percent (16 %) per annum** or as may be agreed upon by the parties: **PROVIDED, THAT THE MAXIMUM RATE THAT THE PARTIES MAY CHARGE OR AGREE TO CHARGE SHALL NOT BE MORE THAT FIVE PERCENTAGE (5 %) POINTS ABOVE THE NINETY ONE (91) DAY TREASURY BILL RATE WITHIN THE PRECEDING QUARTER FROM THE TIME THE LOAN OR RENEWAL THEREOF IS GRANTED.**"

SEC. 4. Section 4 of Republic Act No. Twenty Six Hundred Fifty Five (R.A. 2655), as amended, is hereby amended to read as follows:

"Sec. 4. No pawnbroker or pawnbroker's agent shall directly or indirectly stipulate, charge, demand, take or receive any higher rate or greater sum or value for any loan or forbearance than **THREE PERCENT (3%) per month** if the amount lent is less that **ONE THOUSAND PESOS (P1,000.00)** or more but not exceeding **TWO THOUSAND FIVE HUNDRED (P 2,500.00)**; and **FIFTEEN percent (15%) per annum** **WHEN it is more that the amount last mentioned; or AS MAY BE AGREED UPON BY THE PARTIES; PROVIDED, THAT THE MAXIMUM RATE THAT THE PARTIES MAY CHARGE OR AGREE TO**

CHARGE SHALL NOT BE MORE THAN THREE PERCENTAGE (3%) POINTS ABOVE THE NINETY ONE (91) DAY TREASURY BILL RATE WITHIN THE PRECEDING QUARTER. A pawnbroker or a pawnbroker's agent shall be considered such, for the benefits of this Republic Act, only if he be duly licensed and has an establishment open to the public.

It shall **LIKEWISE** be unlawful for a pawnbroker's agent to divide the pawn offered by a person into two (2) or more fractions in order to collect a greater interest than the permitted by this section.

It shall also be unlawful for a pawnbroker or pawnbroker's agent to require the pawner to pay additional charge as insurance premium for the safekeeping and conservation of the article pawned."

SEC. 5. Section 5 of Republic Act No. Twenty Six Hundred Fifty Five (R.A. 2655), as amended, is hereby amended to read as follows:

"Sec. 5. In computing the interest on any obligation, promissory note or other instrument or contraption, compound interest shall not be reckoned, except by agreement; Provided, that whenever compound interest is agreed upon, the effective rate of interest charged by the creditor shall not exceed the equivalent of the maximum rate prescribed by the Monetary Board and allowed herein, or in default thereof, whenever the debt is judicially claimed, in which last case, it shall draw **TWELVE percent (12%) per annum interest** or such rate as may be prescribed by the Monetary Board **WHICH RATE SHALL NOT BE MORE THAN THREE PERCENTAGE (3%) POINTS ABOVE THE NINETY ONE (91) DAY TREASURY BILL RATE WITHIN THE PRECEDING QUARTER.** No Person or corporation shall require interest to be paid in advance for a period of more than **TWO (2) MONTHS**: Provided, however, that whenever interest is paid in advance, the effective rate of interest charged by the creditor shall not exceed the equivalent of the maximum **ALLOWED BY THIS REPUBLIC ACT.**"

SEC. 6. Section 7 of Republic Act No. Twenty Six Hundred Fifty Five (R.A. 2655), as amended, is hereby amended to read as follows:

"Sec. 7. All covenants and stipulations contained in conveyances, mortgages, bonds, bills, notes and other contracts or evidence of debts, and all deposits of goods, or other goods, or other things, whereupon or whereby there shall be stipulated, charged, demanded, reserved, secured, taken or received, directly or indirectly, a higher rate of interest or greater sum or value for the loan or the renewal **THEREOF** or forbearance of money, goods, or credits than is herein before allowed, shall be void: Provided, however, that no merely clerical error in the computation of interest, made without intent to evade any of the

provisions of this Act, shall render **THE STIPULATION OR AGREEMENT PERTAINING TO THE RATE OF INTEREST** void: Provided, further, That the rate of interest agreed upon at the time the loan arrangement is entered into, which **RATE** shall not exceed the maximum allowed **HEREIN** shall prevail notwithstanding subsequent changes in the maximum rates that may be made by **LAW, UNLESS THE PARTIES TO THE LOAN AGREEMENT, THE PROCEEDS OF WHICH MAY BE AVAILED OF PARTIALLY OR FULLY AT SOME FUTURE TIME, STIPULATE OTHERWISE:** and Provided, finally, that nothing herein contained shall be construed to prevent the purchase by an innocent purchase of a negotiable mercantile paper, usurious or otherwise, for valuable consideration before maturity, when there has been no intention on the part of said purchaser to evade the provisions of this Act and said purchase. In any case, however, the maker of said note shall have the right to recover from said original holder the whole interest paid by him thereon and, in case of litigation, also the costs and such attorney's fees as may be allowed by the court."

SEC. 7. Section 9-A of Republic Act No. Twenty Six Hundred Fifty Five (R.A. 2655), as amended, is hereby amended to read as follows:

"Sec. 9-A. The Monetary Board shall **MAKE KNOWN TO THE PUBLIC THROUGH PUBLICATION IN TWO (2) NEWSPAPERS OF GENERAL CIRCULATION, THE NINETY ONE (91) DAY TREASURY BILL RATE EVERY QUARTER FOR THE PUBLIC'S INFORMATION AND EASY REFERENCE, AND** promulgate such rules and regulations as may be necessary to implement effectively the provisions of the Act."

SEC. 8. Section 10 of Republic Act No. Twenty Six Hundred Fifty Five (R.A. 2655), as amended, is hereby amended to read as follows:

"Sec. 10. Without prejudice to the proper civil action, violation of this Act and the implementing rules and regulations promulgated by the Monetary Board shall be subject to criminal prosecution and the guilty person shall, upon conviction, be sentenced to a fine of not less than **ONE HUNDRED THOUSAND pesos (P100,000.00)**, nor more than **TWO HUNDRED THOUSAND pesos (P200,000.00)**, **AND** imprisonment for not less than one (1) year nor more than six (6) years, and to return the entire sum received as interest from the party aggrieved, and in the case of non-payment, to suffer subsidiary imprisonment at the rate of one (1) day for every **EIGHT pesos (P8.00)**; Provided, That, in case of corporations, associations, societies, or companies, the manager, administrator, or 'gerente' **OR THE PERSON WHO HAS CHARGE OF THE MANAGEMENT OR ADMINISTRATION OF THE BUSINESS, AND WHO**

ARE DIRECTLY RESPONSIBLE FOR CAUSING INTEREST RATES ABOVE THE LEVEL HEREIN PROVIDED TO BE CHARGED shall be criminally responsible for any violation of this Republic Act.

SEC. 9. All laws, Acts, decrees, or parts thereof, inconsistent with the provisions of this Act are hereby repealed and or modified accordingly.

SEC. 10. This Act shall take effect fifteen (15) day following its publication in the Official Gazette or in at least two (2) newspapers of general circulation.

Approved,