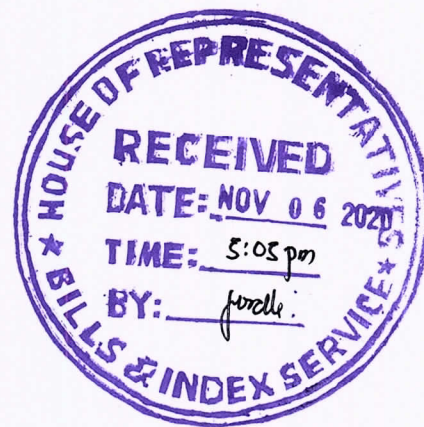




Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City, Metro Manila

EIGHTEENTH CONGRESS
Second Regular Session

House Bill No. 7967



Introduced by Representative **GERALDINE B. ROMAN**

AN ACT
PRESCRIBING THE RATES OF INTEREST UPON LOANS AND FORBEARANCES
BY AMENDING CERTAIN SECTIONS OF R.A. NO. 2655, AS AMENDED,
OTHERWISE KNOWN AS THE USURY LAW

EXPLANATORY NOTE

BSP Governor Benjamin E. Diokno recently announced that the Monetary Board has approved a cap on credit card rates and fees beginning November 3, 2020 to allow credit cardholders more affordable pricing terms. In this time of pandemic, this move is laudable. “The capping of credit card charges is a timely and much-needed measure to promote responsible lending and ease the financial burden of consumers and micro, small and medium enterprises amid the Covid-19 pandemic,” SEC Chairman Emilio B. Aquino said.¹ “We are hopeful that the Monetary Board [would] likewise consider soon the commission’s proposal for similar limits on interest rates and other fees imposed by lending and financing companies on consumer and payday loans, as part of our efforts to put an end to predatory and other abusive lending practices,” he added.²

The proposal is not unprecedented. The Philippines used to have a Usury Law, Republic Act No. 2655, which capped the interest that can be imposed upon a loan and forbearance of money. However, on March 17, 1980, the Usury Law was amended by P.D. No. 1684, giving the Monetary Board the authority to prescribe rates of interest. Pursuant to such authority and in response to the lobby from banks and lending institutions, the Monetary Board issued CB Circular No. 905-1982, removing the ceilings on interest rates by declaring that such rates are no longer subject to any ceiling prescribed under or pursuant to the Usury Law.³ Therefore, at present, the debtor and creditor may enter into a contract providing for any amount of interest. Consequently, many debtors especially those in the cusp of emergencies pay interests at 5 to 10% a month.

Nonetheless, the Supreme Court has found finance charges of 3.35% interest per month and 6% penalty per month excessive.⁴ It has also struck down a stipulated 5.5% per month or 66% per annum interest on a P500,000 loan and a 6% per month or 72% per annum interest on a

¹ Lee, K. L. (2020, October 7). SEC hails BSP’s move to cap charges on credit card transactions. *The Manila Times*. <https://www.manilatimes.net/2020/10/07/business/columnists-business/sec-hails-bsps-move-to-cap-charges-on-credit-card-transactions/777405/>

² *Id.*

³ Beltran, C. (2019, July 14). The curse of usury. *Philstar.Com*. <https://www.philstar.com/opinion/2019/07/15/1934714/curse-usury/>

⁴ *Louh v. Bank of the Philippine Islands*, G.R. No. 225562, March 8, 2017.

P60,000 loan, for being excessive, iniquitous, unconscionable and exorbitant.⁵ Meanwhile, it finds an interest rate of 12% per annum fair and reasonable.⁶

While courts are empowered to reduce interest rates found unconscionable, the delay in and cost of litigation threaten to negate the benefit to the debtor resulting from any such reduction.

Based on BSP data, the average annualized interest rate on credit card receivables range from 18% to 58% from January to June 2020. Based on the credit card business activity report, the average annualized interest rate for all types of cardholders both for premium and non-premium as of June 2020 was around 26%.⁷ Given the economic hardships imposed by the pandemic and guidance from our courts, these rates should be reduced.

This Bill seeks to restore the full effect of the Usury Law, while defining certain standards upon which market forces may still come into play. Furthermore, this Bill also regulates interests on credit cards and other cash advance arrangements. In doing so, this Bill would benefit individual borrowers who are especially vulnerable to the economic impact of the pandemic.

Immediate passage of this bill is earnestly sought.



⁵ *Medel v. Court of Appeals*, G.R. No. 131622, November 27, 1998.

⁶ *Castro v. Angelina de Leon Tan*, G.R. No. 168940, November 24, 2009.

⁷ BAP will comply with BSP cap on credit card rates. (2020, September 25). *Manila Bulletin*.
<https://mb.com.ph/2020/09/25/bap-will-comply-with-bsp-cap-on-credit-card-rates/>



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

Section 1. Section 1 of R.A. No. 2655, as amended, is hereby amended to read as follows:

Section 1. The rate of interest for the loan or forbearance of 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 NOT EXCEED **TWELVE** per centum 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.

Sec. 2. Section 1-a of R.A. No. 2655, as amended, is hereby amended to read as follows:

Sec. 1-a. The Monetary Board is hereby authorized to prescribe the maximum rate or rates of interest for the loan or renewal thereof or the forbearance of any money, goods or credits, **OR CHARGES ON CREDIT CARDS AND OTHER CASH ADVANCE ARRANGEMENTS**, and to change such rate or rates whenever warranted by prevailing economic and social conditions: **PROVIDED, THE MAXIMUM RATE SHALL NOT BE MORE THAN THREE PERCENTAGE POINTS HIGHER THAN THE RATE OF NINETY ONE DAY TREASURY BILLS ON THE QUARTER PRECEDING THE MONETARY BOARD'S IMPOSITION OF SAID MAXIMUM RATE.**

In the exercise of the authority herein granted, the Monetary Board may prescribe higher maximum rates for loans of low priority, such as consumer loans or renewals thereof as well as such loans made by pawnshops finance companies and other similar credit institutions although the rates prescribed for these institutions need not necessarily be uniform. The Monetary Board is also authorized to prescribe different maximum rate or rates for different types of borrowings, including deposits and deposit substitutes, or loans of financial intermediaries, **WITHIN THE LIMITS PRESCRIBED ABOVE.**

Sec. 3. Section 2 of R.A. No. 2655, as amended, is hereby amended to read as follows:

Sec. 2. No person or corporation shall directly or indirectly take or receive in money or other property, real or personal, or choses in action, a higher rate of interest or greater sum or value, including commissions, premiums, fines and penalties, for the loan or renewal thereof, or forbearance of money, goods, or credits, **OR CHARGES ON CREDIT CARDS AND OTHER CASH ADVANCE ARRANGEMENTS**, 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, or by any document conveying such real estate or an interest therein, than twelve per centum per annum or the maximum rate prescribed by the Monetary Board and in force at the time the loan or renewal thereof or forbearance is granted: Provided, That the rate of interest under this section or the maximum rate of interest that may be prescribed by the Monetary Board under this section may likewise apply to loans secured by other types of security as may be specified by the Monetary Board, **PROVIDED FINALLY, THAT SAID MAXIMUM RATE SHALL NOT BE MORE THAN THREE PERCENTAGE POINTS HIGHER THAN THE RATE OF NINETY ONE DAY TREASURY BILLS ON THE QUARTER PRECEDING THE MONETARY BOARD'S IMPOSITION OF SAID MAXIMUM RATE.**

Sec. 4. Section 3 of R.A. No. 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 credits, **OR CHARGES ON CREDIT CARDS AND OTHER CASH ADVANCE ARRANGEMENTS**, where such loan or forbearance is not secured as provided in Section two hereof, than fourteen per centum per annum or the maximum rate or rates prescribed by the Monetary Board and in force at the time the loan or forbearance is granted, **PROVIDED, THAT SAID MAXIMUM RATE SHALL NOT BE MORE THAN FOUR PERCENTAGE POINTS HIGHER THAN THE RATE OF NINETY ONE DAY TREASURY BILLS ON THE QUARTER PRECEDING THE MONETARY BOARD'S IMPOSITION OF SAID MAXIMUM RATE.**

Sec. 5. Section 4 of R.A. No. 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 **TWO** per centum per month when the sum lent is less than **FIVE THOUSAND PESOS** or more but not exceeding **TEN THOUSAND PESOS**; and **FIFTEEN** per centum per annum when it is more than the amount last mentioned; or the maximum rate or rates prescribed by the Monetary Board and in force at the time the loan or forbearance is granted. **PROVIDED, THAT SAID MAXIMUM RATE SHALL NOT BE MORE THAN THREE PERCENTAGE POINTS HIGHER THAN THE RATE OF NINETY ONE DAY TREASURY BILLS ON THE QUARTER PRECEDING THE MONETARY BOARD'S IMPOSITION OF SAID MAXIMUM RATE.**

A pawnbroker or pawnbroker's agent shall be considered such, for the benefits of this Act, only if he be duly licensed and has an establishment open to the public.

It shall be unlawful for a pawnbroker or pawnbroker's agent to divide the pawn offered by a person into two or more fractions in order to collect 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 an additional charge as insurance premium for the safekeeping and conservation of the article pawned.

Sec. 6. Section 4-a of R.A. No. 2655, as amended, is hereby repealed.

Sec. 7. Section 4-b of R.A. No. 2655, as amended, is hereby renumbered as 4-a.

Sec. 8. Section 9-a of R.A. No. 2655, as amended, is hereby amended as follows:

Sec. 9-a. The Monetary Board shall **MAKE KNOWN TO THE PUBLIC BY ALL MEANS NECESSARY THE NINETY-ONE DAY TREASURY BILL RATE EVERY QUARTER AND SHALL** promulgate such rules and regulations as may be necessary to implement effectively the provisions of this Act.

Sec. 9. Section 10 of R.A. No. 2655, as amended, is hereby amended 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 **THREE HUNDRED THOUSAND** pesos nor more than **FIVE MILLION** pesos, or to imprisonment for not less than **FOUR YEARS** nor more than **TWELVE YEARS**, or both, in the discretion of the court, and to return the entire sum received as interest from the party aggrieved **PLUS ALL COSTS AND EXPENSES INCURRED IN THE PROSECUTION OF THE OFFENSE**, and in the case of non-payment, to suffer subsidiary imprisonment at the rate of one day for every **EIGHT** pesos: 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 shall be criminally responsible for any violation of this Act.

Sec. 10. *Repealing Clause.* -- All laws, presidential decrees or issuances, executive orders, letters of instruction, administrative orders, rules or regulation inconsistent with the provisions of this Act are hereby repealed or modified accordingly.

Sec. 11. *Separability Clause.* -- Should any part of this Act be declared unconstitutional, the validity of remaining provision hereof shall remain in full and effect.

Sec. 12. *Effectivity Clause.* -- This Act shall take effect fifteen (15) days from its publication in a newspaper of general circulation.

Approved.