

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

TWENTIETH CONGRESS
First Regular Session

House Bill No. **925**



Introduced by **Hon. Bernadette S. Barbers**

AN ACT

PRESCRIBING MAXIMUM INTEREST RATES ON LOANS OR FORBEARANCE OF MONEY, GOODS OR CREDIT OR ANY MONETARY OBLIGATIONS, AND PROVIDING PENALTIES THEREFOR

EXPLANATORY NOTE

CB Circular No. 905, series of 1982, issued by Monetary Board of the *Bangko Sentral ng Pilipinas*, has suspended the effectivity of Act No. 2656, as amended, otherwise known as "The Usury Law". The Circular has, in effect, allowed the contracting parties to freely stipulate the interest rate on their transaction provided that the same is not excessive, unconscionable and exorbitant.

However, predatory creditors are taking advantage of financially desperate members of society. They set monthly interest rates as much as 5% or higher and the borrower has no choice but to agree, especially if the loan is for emergency purposes. The borrower, ultimately, ends up falling into a debt trap due to unconscionable interest rates.

Nevertheless, the Supreme Court has held in a number of cases that three percent (3%) per month and higher is excessive, iniquitous, unconscionable and exorbitant. It has also held that the imposition of an unconscionable rate of interest on a money debt, even if knowingly and voluntarily assumed, is immoral, unjust and against public policy.

Although an interest rate of 3% or higher is considered unconscionable and can be reduced by the court if deemed necessary, involved parties oftentimes choose not to take their claim to court. The reason is that litigation expenses, on many occasions, exceed the amount that could be saved from a reduced interest rate.

Thus, this bill seeks to prescribe the maximum rate of interest on loans or forbearance of any money, goods, or credits, or any obligations consisting of payment of a sum of money and to provide penalties for violations thereof. This will prevent the predatory creditors from imposing unconscionable and exorbitant interest rates.

No one shall be unjustly enriched at the expense of another.

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


HON. BERNADETTE S. BARBERS
2nd District, Surigao del Norte

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PROVIDING PENALTIES THEREFOR

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

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

SEC. 2. *Declaration of Policy.* – It is the policy of the State to protect its citizen against unfair and unconscionable acts and practices prejudicial to public interest. Toward this end, this Act seeks to prevent predatory and unscrupulousness creditors from imposing unconscionable, excessive, iniquitous and exorbitant interest rates on loans or forbearance of any money, goods, or credits or any obligations consisting in the payment of a sum of money.

SEC. 3. The rate of interest for the loan or forbearance of any money, goods or credit, or any obligations consisting in the payment of a sum of money, and the rate allowed in judgments, in the absence of an express contract as to such rate of interest, shall be six percent (6%) per annum.

SEC. 4. *Maximum Interest Rate.* – The rate of interest, including commissions, premiums, fines, penalties, fees and other charges, on a loan or forbearance of any money, goods, or credits, regardless of maturity and whether secured or unsecured, or any obligations consisting in the payment of sum of money, that may be charged or collected by any person, whether natural or juridical, shall not be more than twelve percent (12%) per annum.

Juridical person shall include, but not limited, to lending company as defined under Republic Act No. 9474 or Lending Company Regulation Act of 2007, financing company as defined under Republic Act No. 8556 or Financing Company Act of 1998, banks as defined under Republic Act No. 8791 or The General Banking Law of 2000, credit card companies, pawnshops, investments houses, savings and loan associations, insurance companies, cooperatives, and other similar financial or credit institutions already regulated by law.

Other charges shall include, but not limited to, transaction fee, finance charges, cash advance service charge, discount charges, and penalties for late payments.

SEC. 5. *Penalties.* – Any violation of this law will subject the offender upon conviction, to an imprisonment of not more than six (6) years or a fine not more than One Million Pesos (P1,000,000.00), or both, in 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.

SEC. 6. *Implementing Rules and Regulations.* – The *Bangko Sentral ng Pilipinas*, within sixty (60) days from the effectivity of this Act, shall promulgate rules and regulations to effectively implement this Act.

SEC. 7. *Repealing Clause.* – All laws, orders, issuances, circulars, rules and regulations or parts thereof, which are inconsistent with the provisions of this Act are hereby repealed, modified, or amended accordingly.

SEC. 8. *Effectivity.* – This Act shall take effect fifteen (15) days after its publication in the *Official Gazette* or in a newspaper of general circulation.

Approved,