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(In substitution of S. B. Nos. 775, 1812, 2445 and P. S. Res. No. 104, taking into consideration House Bill No. 5303)

Prepared by the Committee with Senators Villar, Pimentel, Jr., Defensor-Santiago and Roxas as authors thereof

**AN ACT
PROVIDING PROTECTION FOR BUYERS OF MOTOR VEHICLES,
ENFORCING SALES WARRANTIES, IMPOSING PENALTIES FOR
VIOLATIONS THEREOF AND FOR OTHER PURPOSES**

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

1 **SECTION 1. Short Title.** – This Act shall be known as the “Lemon Law of 2006”.

2 **SEC. 2. Declaration of Policy.**– It is hereby declared the policy of the State to promote
3 full protection to the rights of consumers in the sale of motor vehicles against sales and trade
4 practices which are deceptive, unfair or otherwise inimical to the consumers and the public
5 interest.

6 The State recognizes that a motor vehicle is a major consumer purchase or investment.
7 The consumer rights should thus be clearly defined including the means for redress for violations
8 thereof.

9 **SEC. 3. Coverage.**– The provisions of this Act shall apply to buyers of new motor
10 vehicles as well as used motor vehicles to the extent provided for under this Act.

11 **SEC. 4. Definition of Terms.**– For purposes of this Act, the following terms shall mean:

12 (a) “Consumer” shall mean the purchaser, other than for purposes of resale, of a motor
13 vehicle used in substantial part for personal, family, or household purposes, and any

1 person to whom the motor vehicle is transferred for the same purposes during the
2 duration of any warranty applicable to such motor vehicle, and any other person entitled
3 by the terms of such warranty to enforce the obligations of the warranty.

4 (b) "Manufacturer" shall mean a person, partnership, association, corporation or entity
5 engaged in the business of manufacturing or assembling motor vehicles, or of distributing
6 motor vehicles to motor vehicle dealers.

7 (c) "Manufacturer's Express Warranty" shall mean the written warranty, so labeled, of the
8 manufacturer of a new automobile, including any terms or conditions precedent to the
9 enforcement of obligations under that warranty.

10 (d) "Motor Vehicle" shall mean only passenger cars, pick-up or panel – trucks, sports utility
11 vehicles, Asian utility vehicles, vans, motorcycles, and demonstrators or lease purchase
12 vehicles with which warranty was issued.

13 (e) "Dealer" or "Seller" shall mean any person other than a manufacturer which sells motor
14 vehicles to the public.

15 (f) "Lemon Law Rights Period" shall mean the period ending eighteen (18) months after the
16 date of original delivery to the consumer of a new motor vehicle. This shall be the period
17 during which the consumer can report any non-conformity to the manufacturer and
18 pursue any rights provided in this Act. With respect to second hand motor vehicles, the
19 period may be stipulated by the seller and the consumer.

20 (g) "Lien" shall mean a security interest in a motor vehicle.

21 (h) "Lienholder" shall mean a person, partnership, association, corporation or entity with a
22 security interest in a motor vehicle pursuant to a lien.

23 (i) "Collateral Charges" shall mean sales-related charges including but not limited to sales
24 tax, license fees, finance charges and interest, transportation charges, dealer preparation
25 charges or any other charges for service contracts, undergoing rust proofing or installed
26 options, not recoverable from a third party.

27 (j) "Comparable Motor Vehicle" shall mean a motor vehicle that is identical or reasonably
28 equivalent to the motor vehicle to be replaced, as the motor vehicle existed at the time of

1 purchase: *Provided*, That there shall be an offset from this value for reasonable allowance
2 for its use.

3 (k) “Non-conformity” shall mean a failure to conform to a warranty, a defect or a condition,
4 including those that do not affect the driveability of the vehicle but significantly impairs
5 the use, market value, or safety of a motor vehicle.

6 (l) “Notify” or “Notification” shall mean that the manufacturer shall be deemed to have been
7 notified if a written complaint of the defect or defects has been mailed to it or it has
8 responded to the consumer in writing regarding a complaint, or a factory representative
9 has either inspected the vehicle or met with the consumer or an authorized dealer
10 regarding the non-conformity.

11 (m) “Warranty” shall mean any warranty, written or otherwise, of the manufacturer, or any
12 affirmations of fact or promise made by the manufacturer in connection with the sale of a
13 motor vehicle that become part of the basis of the bargain. The term “warranty” pertains
14 to the obligations of the manufacturer in relation to materials, workmanship, and fitness
15 of a motor vehicle for ordinary use or reasonable intended purposes throughout the
16 duration of the lemon law rights period as defined in this section.

17 With respect to a second hand motor vehicle, the warranty shall refer to the
18 disclosure of the seller as to the condition of the motor vehicle, and the certain period of
19 time within which such condition will subsist.

20 (n) “Lemon or Significant Impairment” shall mean that the new motor vehicle is unfit,
21 unreliable or unsafe for ordinary use or reasonable intended purposes.

22 (o) “Serious safety defect” shall mean a life-threatening malfunction or non-conformity that
23 impedes the consumer’s ability to control or operate the new motor vehicle for ordinary
24 use or reasonable intended purposes or creates a risk of fire or explosion.

25 **SEC. 5. Conformity to Warranties.**— If a motor vehicle does not conform to all
26 warranties, and the consumer reports the non-conformity, the manufacturer, its agents, its
27 authorized dealer, or the seller in case of second hand motor vehicles, during the warranty
28 period, shall make such repairs, free of any charges, as are necessary to make the vehicle

1 conform to such warranties, notwithstanding the fact that such repairs are made after the
2 expiration of the manufacturer's or seller's warranty period.

3 **SEC. 6. *Non-conformity of Motor Vehicles.***— If the manufacturer, its agents, authorized
4 dealers or the seller in case of second hand vehicles, do not repair or correct the non-conformity,
5 after a reasonable number of attempts within the lemon law rights period, the manufacturer or the
6 seller shall:

7 (a) Replace the motor vehicle with a comparable motor vehicle; or

8 (b) Accept the return of the motor vehicle and refund to the consumer and any lien holder as
9 their interest may appear the full purchase price, including all collateral charges,
10 incidental charges, incidental damages, less a reasonable allowance for the consumer's
11 use of the vehicle up to the date of the first notice of non-conformity that is given to the
12 manufacturer, its agents or authorized dealer. The consumer shall have the unconditional
13 right to choose a refund rather than a replacement vehicle and to drive the motor vehicle
14 until he receives either a replacement or a refund. The subtraction of a reasonable
15 allowance for use shall apply to either a replacement or refund of the motor vehicle.
16 Mileage, expenses, and reasonable loss of use necessitated by attempts to conform such
17 motor vehicle to the express warranty may be recovered by the consumer.

18 **SEC. 7. *Presumption of Lemon or Significant Impairment for New Motor Vehicles.***— It
19 shall be presumed that the new motor vehicle is a lemon or in a significant impairment state if
20 during the lemon rights period:

21 (a) The same non-conformity has been subject to repair three or more times by the
22 manufacturer, its agents or its authorized dealers and the same non-conformity continues
23 to exist;

24 (b) The non-conformity is a serious safety defect and has been subject to repair one or more
25 times by the manufacturer, its agent or its authorized dealer and the same non-conformity
26 continues to exist; or

27 (c) The motor vehicle is out of service due to repair for a cumulative total of thirty (30)
28 calendar days, unless such repairs could not be performed because of conditions beyond

1 the control of the manufacturer, its agents or authorized dealers, including war, invasion,
2 strike, fire, flood or other natural disasters.

3 **SEC. 8. *Lemon Law Rights Period Extension.*** – The lemon law rights period shall be
4 accordingly extended until such time when the non-conformity has been effectively repaired if
5 the manufacturer, the seller or the agent has been notified but no action has been taken.

6 **SEC. 9. *Disclosure.*** – The manufacturer, or the seller in the case of second hand motor
7 vehicles, shall clearly and conspicuously disclose to the consumer, in the warranty or owner’s
8 manual, that written notification of the non-conformity to the manufacturer is required before the
9 consumer may be eligible for refund or replacement of the vehicle. The manufacturer or the
10 seller shall include with the warranty or owner’s manual the name and address to which the
11 consumer shall send such written notification.

12 **SEC. 10. *Notification Requirement.***– Prior to availing himself of the provisions of this
13 section, it shall be the responsibility of the consumer, or his representative, to notify the
14 manufacturer of the need for the correction or repair of the non-conformity, unless the
15 manufacturer has already been notified. If the manufacturer or factory representative has not
16 been notified of the conditions set forth in Section 7, and any of the conditions set forth in
17 Section 7 already exists, the manufacturer shall be given additional opportunity, not to exceed
18 fifteen (15) days, to correct or repair the non-conformity. If notification shall be mailed to an
19 authorized dealer, the authorized dealer shall upon receipt, forward such notification to the
20 manufacturer.

21 **SEC. 11. *Remedies.*** – Any consumer who suffers loss by reason of a violation of any
22 provision of this Act may bring an action to enforce such provision. Any consumer who is
23 successful in such an action or any defendant in any frivolous action brought by a consumer shall
24 recover reasonable attorney’s fees and other costs incurred in bringing such actions.

25 Nothing herein shall be construed to limit or impair the rights and remedies of a
26 consumer under any other law.

1 **SEC. 12. *Defenses.*** – The manufacturer or any other person against whom an action is
2 brought may deny liability by raising the following affirmative defenses:

3 (a) An alleged non-conformity does not make the vehicle a lemon or is a significant
4 impairment or is a serious safety defect as defined under this Act; and

5 (b) A non-conformity is the result of abuse, neglect, or unauthorized modification or
6 alteration of a motor vehicle by a consumer.

7 **SEC. 13. *Mediation Proceedings.***– Prior to litigation, the parties shall be required to
8 undergo mediation proceedings under the Bureau of Trade Regulation and Consumer Protection
9 and the Consumer Welfare and Trade Regulation Group or such other agencies as may be
10 designated by the Secretary of the Department of Trade and Industry which has the necessary
11 capability and expertise pertaining to motor vehicles.

12 Within six (6) months after the effectivity of this Act, the said agencies are hereby
13 mandated to draft and promulgate its rules and procedures for said mediation proceedings. The
14 rules shall incorporate an evaluation by the agency’s experts of any technical issues, which shall
15 be considered with finality.

16 **SEC. 14. *Award of Damages.***– In any action brought by the consumer due to the
17 manufacturer’s failure to comply with the decision, within the scope of the procedure’s authority,
18 rendered as a result of a dispute resolution proceeding or a court order, the court may grant moral
19 and exemplary damages, plus other equitable relief as the court deems appropriate, including
20 attorney’s fees.

21 **SEC. 15. *Prescriptive Period.***– Any action brought under this Act shall be commenced
22 within the lemon law rights period following the date of original delivery of the motor vehicle to
23 the consumer; however, any consumer whose good faith attempts to settle the dispute have not
24 resulted in the satisfactory correction or repair of the non-conformity, replacement of the motor
25 vehicle or refund to the consumer of the amount described in subsection (b) of Section 6 of this
26 Act, shall have twelve (12) months from the date of the final action taken by the manufacturer in
27 its dispute settlement procedure, or within the lemon law rights period, whichever is longer, to

1 file an action in the proper court, provided the consumer has rejected the manufacturer's final
2 action.

3 **SEC. 16. *Disclosure of Transfer of Vehicles.*** – If a motor vehicle that is returned to the
4 manufacturer or distributor either under this Act or by judgment, decree or award is then
5 transferred to a dealer, the manufacturer or distributor shall disclose this information to the
6 dealer prior to any sale, lease, or transfer. The manufacturer or distributor shall disclose the
7 same to the Land Transportation Office (LTO) which shall then inscribe the ownership
8 certificate with notation “Lemon Buyback” and affix a decal to the vehicle if the manufacturer
9 knew or should have known that the vehicle is required by law to be replaced or accepted for
10 restitution due to failure to comply with warranties.

11 **SEC. 17. *Disclosure on Re-sale.*** – If the returned vehicle is then made available for
12 resale, the manufacturer shall, prior to sale, lease, or transfer, disclose in writing in a clear and
13 conspicuous manner to the dealer that:

- 14 (a) the motor vehicle was returned to the manufacturer, distributor, factory or branch;
- 15 (b) the nature of the non-conformity which resulted in the return;
- 16 (c) the repairs, if any, made to the vehicle in an attempt to correct each non-conformity;
- 17 (d) the title to the vehicle has been inscribed with “Lemon Law Buyback” notation; and
- 18 (e) the condition of the motor vehicle at the time of the transfer to the dealer.

19 It shall be the responsibility of the dealer that receives the disclosure to give notice of its
20 contents to any prospective purchaser prior to sale, and to transfer the disclosure, or a copy
21 thereof to the next purchaser. A dealer's responsibility under this section shall cease upon the
22 sale of the affected motor vehicle to the first purchaser not for resale.

23 **SEC. 18. *Prohibitions.***– Any automobile manufacturer, seller, importer, distributor,
24 dealer, or lien-holder who reacquires, or assists in reacquiring a motor vehicle, whether by
25 judgment, decree, arbitration award, settlement agreement, or voluntary agreement, is prohibited
26 from doing either of the following:

1 1) Requiring, as a condition of the reacquisition of the motor vehicle, that a buyer or
2 lessee who is a resident of the Philippines agrees not to disclose the problems with the
3 vehicle experienced by the buyer or lessee or the non-financial terms of the
4 reacquisition; and

5 2) Including, in any release or other agreement, whether prepared by the manufacturer,
6 seller, importer, distributor, dealer, or lien-holder, for signature by the buyer or lessee,
7 a confidentiality clause, gag clause, or similar clause prohibiting the buyer or lessee
8 from disclosing information to anyone about the problems with the vehicle, or the
9 non-financial terms of the reacquisition of the vehicle by the manufacturer, importer,
10 distributor, dealer, or lien-holder.

11 a) Any confidentiality clause, gag clause, or similar clause in such a release or other
12 agreement in violation of this section shall be null and void as against the public
13 policy of this state.

14 b) Nothing in this section is intended to prevent any confidentiality clause, gag
15 clause, or similar clause regarding the financial terms of the reacquisition of the
16 vehicle.

17 **SEC. 19. Penalties.** – Any person found guilty of violating any of the provisions of the
18 foregoing prohibited acts shall be penalized with imprisonment of not less than two (2) years to
19 not more than six (6) years or a fine of not less than One hundred thousand pesos (P100,000.00),
20 or both, at the discretion of the Court.

21 (a) The foregoing penalty shall be without prejudice to any civil or criminal liability they
22 and/or their responsible officers may incur under existing laws;

23 (b) If the offender is an alien, he shall be deported after service of sentence and payment of
24 fine without further deportation proceedings;

25 (c) In case the offender is a naturalized citizen, he shall, in addition to the penalty prescribed
26 herein, suffer the penalty of cancellation of his naturalization certificate and its

1 registration in the civil registrar and immediate deportation after service of sentence and
2 payment of fine;

3 (d) Any director, officer, agent of a corporation who shall authorize, order or perform any of
4 the acts or practices constituting in whole or in part a violation of the preceding section,
5 and who has knowledge or notice of non-compliance received by the corporation from
6 the concerned department, shall be subject to penalties to which that corporation may be
7 subject; and

8 (e) In case the violation is committed by, or in the interest of a foreign juridical person duly
9 licensed to engage in business in the Philippines, such license to engage in business in the
10 Philippines shall immediately be revoked.

11 **SEC. 20. *Repealing Clause.*** – All laws, decrees, executive orders, issuances, rules or
12 regulations or parts thereof, which are inconsistent with the provisions of this Act, are hereby
13 deemed repealed, amended or modified accordingly.

14 **SEC. 21. *Separability Clause.*** – If, for any reason, any part or provision of this Act is
15 declared invalid, such declaration shall not affect the other provisions of this Act.

16 **SEC. 22. *Efectivity.*** – This Act shall take effect fifteen (15) days after its publication in
17 the Official Gazette or in two national newspapers of general circulation.

Approved,