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## Recent Jurisprudence - Contractual Penalties and “Exploitation” in Lease Agreements

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On June 6, 2025, the First Chamber of Mexico’s Supreme Court of Justice (SCJN) issued a ruling in Direct Appeal 1954/2020, in which it analyzed the possibility that certain clauses of a lease agreement, particularly the penalty and the agreed default interest, could be evaluated by the courts in light of Article 21.3 of the American Convention on Human Rights (ACHR), which prohibits usury and all forms of human exploitation.

In the case, a commercial lease agreement a default interest rate of 5% per month and a contractual penalty equivalent to 100% of the monthly rent were agreed upon, which was updated for as long as the breach continued. The lessee sued for termination of the contract and payment of those penalties. The matter reached the SCJN, which essentially held:

1. “Usury” and “exploitation” are not equivalent concepts, although they may be related. Usury requires a loan as a basic legal act, which does not apply to lease agreements.
2. However, the contractual penalty (including default interest and penalties) can be assessed from the perspective of “exploitation” under Article 21.3 of the ACHR when abusive exploitation affecting human dignity is proven.
3. “Exploitation” requires a substantive analysis: economic disproportion is not sufficient; there must also be financial subjugation between the exploited person and the exploiter; domination; a relationship of material inequality, among other things. In other words, it must be verified whether there is a serious case in which the beneficiary not only obtains economic or material gain, but also diminishes the dignity of the party bearing the burden, which is prohibited by the ACHR.

This ruling is in addition to a series of criteria issued by the SCJN and the Circuit Courts, which reiterate the control of conventionality of contractual clauses of private law, in this case, in view of the exploitation that may result from the disproportionate nature of benefits between individuals.

It is advisable to review clauses in lease agreements that establish default interest and contractual penalties to avoid partial nullity of the contract for contravening constitutional or conventional human rights norms.

In conclusion, this criterion requires greater sensitivity in the drafting of contractual penalties, considering the economic balance between the parties to ensue such are not considered disproportionate or constitute exploitation.