



Republic of the Philippines
Supreme Court
 Manila

SECOND DIVISION

**SPOUSES BAYANI H. ANDAL AND
 GRACIA G. ANDAL,**

Petitioners,

-versus-

**PHILIPPINE NATIONAL BANK,
 REGISTER OF DEEDS OF
 BATANGAS CITY, JOSE C.
 CORALES,**

Respondents.

G.R. NO. 194201

Present:

CARPIO, J.,
 Chairperson,
 BRION,
 DEL CASTILLO,
 ABAD,* and
 PEREZ, JJ.

Promulgated:

NOV 27 2013

H. Cabalag Perfecto

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DECISION

PEREZ, J.:

Before the Court is a Petition for Review on *Certiorari*¹ under Rule 45 of the Rules of Court seeking to partially set aside the Decision,² dated 30 March 2010, and the Resolution,³ dated 13 October 2010, of the Court of Appeals (CA) in CA-G.R. CV No. 91250. The challenged Decision dismissed the appeal of herein respondent Philippine National Bank (respondent bank) and affirmed the decision of the Regional Trial Court (RTC), Branch 84, Batangas City with the modification that the interest rate to be applied by respondent bank on the principal loan obligation of petitioners Spouses Bayani H. Andal and Gracia G. Andal (petitioners-spouses) shall be 12% per annum, to be computed from default.

* Per Special Order No. 1619 dated 22 November 2013.

¹ *Rollo*, pp. 23-46.

² Id. at 48-65; Penned by Associate Justice Hakim S. Abdulwahid with Associate Justices Normandie B. Pizarro and Ruben C. Ayson, concurring.

³ Id. at 18-21.

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As found by the CA, the facts of this case are as follows:

x x x on September 7, 1995, [petitioners-spouses] obtained a loan from [respondent bank] in the amount of P21,805,000.00, for which they executed twelve (12) promissory notes x x x [undertaking] to pay [respondent bank] the principal loan with varying interest rates of 17.5% to 27% per interest period. It was agreed upon by the parties that the rate of interest may be increased or decreased for the subsequent interest periods, with prior notice to [petitioners-spouses], in the event of changes in interest rates prescribed by law or the Monetary Board x x x, or in the bank's overall cost of funds.

To secure the payment of the said loan, [petitioners-spouses] executed in favor of [respondent bank] a real estate mortgage using as collateral five (5) parcels of land including all improvements therein, all situated in Batangas City and covered by Transfer Certificate of Title (TCT) Nos. T-641, T-32037, T-16730, T-31193 and RT 363 (3351) of the Registry of Deeds of Batangas City, in the name of [petitioners-spouses].

Subsequently, [respondent bank] advised [petitioners-spouses] to pay their loan obligation, otherwise the former will declare the latter's loan due and demandable. On July 17, 2001, [petitioners-spouses] paid P14,800,000.00 to [respondent bank] to avoid foreclosure of the properties subject of the real estate mortgage. Accordingly, [respondent bank] executed a release of real estate mortgage over the parcels of land covered by TCT Nos. T-31193 and RT-363 (3351). However, despite payment x x x, [respondent bank] proceeded to foreclose the real estate mortgage, particularly with respect to the three (3) parcels of land covered by TCT Nos. T-641, T-32037 and T-16730 x x x.

x x x [A] public auction sale of the properties proceeded, with the [respondent bank] emerging as the highest and winning bidder. Accordingly, on August 30, 2002, a certificate of sale of the properties involved was issued. [Respondent bank] consolidated its ownership over the said properties and TCT Nos. T-52889, T-52890, and T-52891 were issued in lieu of the cancelled TCT[s] x x x. This prompted [petitioners-spouses] to file x x x a complaint for annulment of mortgage, sheriff's certificate of sale, declaration of nullity of the increased interest rates and penalty charges plus damages, with the RTC of Batangas City.

In their amended complaint, [petitioners-spouses] alleged that they tried to religiously pay their loan obligation to [respondent bank], but the exorbitant rate of interest unilaterally determined and imposed by the latter prevented the former from paying their obligation. [Petitioners-spouses] also alleged that they signed the promissory notes in blank, relying on the representation of [respondent bank] that they were merely proforma [sic] bank requirements. Further, [petitioners-spouses] alleged that the unilateral increase of interest rates and exorbitant penalty charges are akin to unjust enrichment at their expense, giving [respondent bank] no right to foreclose their mortgaged properties. x x x.

x x x x

On August 27, 2004 [respondent bank] filed its answer, denying the allegations in the complaint. x x x [respondent bank] alleged that: the penalty charges imposed on the loan was expressly stipulated under the credit agreements and in the promissory notes; although [petitioners-spouses] paid to [respondent bank] P14,800,000.00 on July 10, 2001, the former was still indebted to the latter in the amount of P33,960,633.87; assuming *arguendo* that the imposition was improper, the foreclosure of the mortgaged properties is in order since [respondent bank's] bid in the amount of P28,965,100.00 was based on the aggregate appraised rates of the foreclosed properties. x x x⁴

After trial, the RTC rendered judgment⁵ in favor of petitioners-spouses and against respondent bank, ordering that:

1. The rate of interest should be reduced as it is hereby reduced to 6% in accordance with Article 2209 of the Civil Code effective the next 30, 31 and 180 days respectively from the date of the twelve (12) promissory notes x x x covered by the real estate x x x mortgages, to be applied on a declining balance of the principal after the partial payments of P14,800,00.00 (paid July 17, 2001) and P2,000,000.00⁶ (payments of P300,000.00 on October 1, 1999, P1,800,000.00 as [of] December 1, 1999, P700,000.00 [on] January 31, 2000) per certification of [respondent bank] to be reckoned at (sic) the dates the said payments were made, thus the corrected amounts of the liability for principal balance and the said 6% charges per annum shall be the new basis for the [petitioners-spouses] to make payments to the [respondent bank] x x x which shall automatically extinguish and release the mortgage contracts and the outstanding liabilities of the [petitioners-spouses]; [respondent bank] shall then surrender the new transfer certificates of title x x x in its name to the [c]ourt x x x, [c]anceling the penalty charges.

x x x x

3. Declaring as illegal and void the foreclosure sales x x x, the Certificates of Sales and the consolidation of titles of the subject real properties, including the cancellation of the new Transfer Certificates of Title x x x in the name of the [respondent] bank and reinstating Transfer Certificates of Title Nos. T-641, T-32037 and T-16730 in the names of the [petitioners-spouses]; the latter acts to be executed by the Register of Deeds of Batangas City.⁷

⁴ Id. at 48-51.

⁵ CA *rollo*, pp. 17-27; RTC Decision dated 6 July 2007.

⁶ Should be ₱2,800,000.00.

⁷ CA *rollo*, p. 27.

The foregoing disposition of the RTC was based on the following findings of fact:

As of this writing the [respondent] bank have (sic) not complied with the said orders as to the interest rates it had been using on the loan of [petitioners-spouses] and the monthly computation of interest vis a vis (sic) the total shown in the statement of account as of Aug 30, 2002. Such refusal amounts to suppression of evidence thus tending to show that the interest used by the bank was unilaterally increased without the written consent of the [petitioners-spouses]/borrower as required by law and Central Bank Circular No. 1171. The latter circular provides that any increase of interest in a given interest period will have to be expressly agreed to in writing by the borrower. The mortgaged properties were subject of foreclosure and were sold on August 30, 2002 and the [respondent] bank's statement of account as of August 30, 2002 x x x shows unpaid interest up to July 17, 2001 of P12,695,718.99 without specifying the rate of interest for each interest period of thirty days. Another statement of account of [respondent bank] x x x as [of] the date of foreclosure on August 30, 2002 shows account balance of P20,505,916.51 with a bid price of P28,965,100.00 and showing an interest of P16,163,281.65. Again, there are no details of the interest used for each interest period from the time these loans were incurred up to the date of foreclosure. These statements of account together with the stated interest and expenses after foreclosure were furnished by the [respondent] bank during the [c]ourt hearings. The central legal question is that there is no agreement in writing from the [petitioners-spouses]/borrowers for the interest rate for each interest period neither from the data coming from the Central Bank or the cost of money which is understood to mean the interest cost of the bank deposits from the public. Such imposition of the increased interest without the consent of the borrower is null and void pursuant to Article 1956 of the Civil Code and as held in the pronouncement of the Supreme Court in several cases and C.B. Circular No. 1191 that the interest rate for each re-pricing period under the floating rate of interest is subject to mutual agreement in writing. Art. 1956 states that no interest is due unless it has been expressly stipulated and agreed to in writing.

Any stipulation where the fixing of interest rate is the sole prerogative of the creditor/mortgagee, belongs to the class of potestative condition which is null and void under Art. 1308 of the New Civil Code. The fulfillment of a condition cannot be left to the sole will of [one of] the contracting parties.

x x x x

In the instant case, if the interest is declared null and void, the foreclosure sale for a higher amount than what is legally due is likewise null and void because under the Civil Code, a mortgage may be foreclosed only to enforce the fulfillment of the obligation for whose security it was constituted (Art. 2126, Civil Code).

x x x x

Following the declaration of nullity of the stipulation on floating rate of interest since no interest may be collected based on the stipulation that is null and void and legally inexistent and unenforceable. x x x. Since the interest imposed is illegal and void only the rate of 6% interest per month shall be imposed as liquidated damages under Art. 2209 of the Civil Code.

It is worth mentioning that these forms used by the bank are pre-printed forms and therefore contracts of adhesion and x x x any dispute or doubt concerning them shall be resolved in favor of the x x x borrower. This (sic) circumstances tend to support the contention of the [petitioners-spouses] that they were made to sign the real estate mortgages/promissory notes in blank with respect to the interest rates.

x x x x

[Respondent bank has] no right to foreclose [petitioners-spouses'] property and any foreclosure thereof is illegal, unreasonable and void, since [petitioners-spouses] are not and cannot be considered in default for their inability to pay the arbitrarily, illegally, and unconscionably adjusted interest rates and penalty charges unilaterally made and imposed by [respondent] bank.

The [petitioners-spouses] submitted to the [c]ourt certified copies of the weighted average of Selected Domestic Interest Rates of the local banks obtained from the Bangko Sentral ng Pilipinas Statistical Center and it shows a declining balance of interest rates x x x.

x x x x

There is no showing by the [respondent bank] that any of the foregoing rate was ever used to increase or decrease the interest rates charged upon the [petitioners-spouses'] mortgage loan for the 30 day repricing period subsequent to the first 30 days from [the] dates of the promissory notes. These documents submitted being certified public documents are entitled to being taken cognizance of by the [c]ourt as an aid to its decision making. x x x.⁸

Respondent bank appealed the above judgment of the trial court to the CA. Its main contention is that the lower court erred in ordering the re-computation of petitioners-spouses' loans and applying the interest rate of 6% per annum. According to respondent bank, the stipulation on the interest rates of 17.5% to 27%, subject to periodic adjustments, was voluntarily agreed upon by the parties; hence, it was not left to the sole will of respondent bank. Thus, the lower court erred in reducing the interest rate to 6% and in setting aside the penalty charges, as such is contrary to the

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Id. at 22-27.

principle of the obligatory force of contracts under Articles 1315 and 1159 of the Civil Code.⁹

The CA disposed of the issue in the following manner:

We partly agree with [respondent bank's] contention.

Settled is the rule that the contracting parties are free to enter into stipulations, clauses, terms and conditions as they may deem convenient, as long as these are not contrary to law, morals, good customs, public order or public policy. Pursuant to Article 1159 of the Civil Code, these obligations arising from such contracts have the force of law between the parties and should be complied with in good faith. x x x.

x x x x

In the case at bar, [respondent bank] and [petitioners-spouses] expressly stipulated in the promissory notes the rate of interest to be applied to the loan obtained by the latter from the former, x x x.

x x x x

[Respondent bank] insists that [petitioner-spouses] agreed to the interest rates stated in the promissory notes since the latter voluntarily signed the same. However, we find more credible and believable the version of [petitioners-spouses] that they were made to sign the said promissory notes in blank with respect to the rate of interest and penalty charges, and subsequently, [respondent] bank filled in the blanks, imposing high interest rate beyond which they were made to understand at the time of the signing of the promissory notes.

x x x x

The signing by [petitioners-spouses] of the promissory notes in blank enabled [respondent] bank to impose interest rates on the loan obligation without prior notice to [petitioners-spouses]. The unilateral determination and imposition of interest rates by [respondent] bank without [petitioners-spouses'] assent is obviously violative of the principle of mutuality of contracts ordained in Article 1308 of the Civil Code x x x.

x x x x

[Respondent bank's] act converted the loan agreement into a contract of adhesion where the parties do not bargain on equal footing, the weaker party's participation, herein [petitioners-spouses], being reduced to the alternative to take it or leave it. [Respondent] bank tried to sidestep this issue by averring that [petitioners-spouses], as businessmen, were on equal footing with [respondent bank] as far as the subject loan agreements are concerned. That may be true insofar as entering into the original loan

⁹ *Rollo*, p. 56.

agreements and mortgage contracts are concerned. However, that does not hold true when it comes to the unilateral determination and imposition of the escalated interest rates imposed by [respondent] bank.

x x x x

The Court further notes that in the case at bar, [respondent] bank imposed different rates in the twelve (12) promissory notes: interest rate of 18% in five (5) promissory notes; 17.5% in two (2) promissory notes; 23% in one (1) promissory note; and 27% in three (3) promissory notes. Obviously, the interest rates are excessive and arbitrary. Thus, the foregoing interest rates imposed on [petitioners-spouses'] loan obligation without their knowledge and consent should be disregarded, not only for being iniquitous and exorbitant, but also for being violative of the principle of mutuality of contracts.

However, we do not agree with the trial court in fixing the rate of interest of 6%. It is well-settled that when an obligation is breached and consists in the payment of a sum of money, *i.e.*, loan or forbearance of money, the interest due shall be that which may have been stipulated in writing. In the absence of stipulation, the rate of interest shall be 12% interest per annum to be computed from default, *i.e.*, from judicial or extra-judicial demand and subject to the provisions of Article 1169 of the Civil Code. Since the interest rates printed in the promissory notes are void for the reasons above-stated, the rate of interest to be applied to the loan should be 12% per annum only.¹⁰

The CA, consequently, dismissed respondent bank's appeal and affirmed the decision of the trial court with the modification that the rate of interest shall be 12% per annum instead of 6%.

Respondent bank filed a Motion for Reconsideration of the CA decision. Petitioners-spouses, on the other hand, filed a comment praying for the denial of respondent bank's motion for reconsideration. They also filed an "Urgent Manifestation"¹¹ calling the attention of the CA to its respective decisions in the cases of *Spouses Enrique and Epifania Mercado v. China Banking Corporation, et. al.* (CA-GR CV No. 75303)¹² and *Spouses Bonifacio Caraig and Ligaya Caraig v. The Ex-Officio Sheriff of RTC, Batangas City, et. al.* (CA-G.R. CV No. 76029).¹³

According to petitioners-spouses, in *Spouses Mercado v. China Banking*, the Special Seventh Division of the CA held that where the interest rate is potestative, the entire interest is null and void and no interest is due.

¹⁰ Id. at 57-62.

¹¹ CA *rollo*, pp. 192-195.

¹² *Rollo*, pp. 88-101; Promulgated on 15 November 2005.

¹³ Id. at 103-115; Promulgated on 31 May 2007.

On the other hand, in the case of *Spouses Caraig v. The Ex-Officio Sheriff of RTC, Batangas City*, the then Ninth Division of the CA ruled that under the doctrine of operative facts, no interest is due after the auction sale because the loan is paid in kind by the auction sale, and interest shall commence to run again upon finality of the judgment declaring the auction sale null and void.¹⁴

The CA denied respondent bank's Motion for Reconsideration for lack of merit. It likewise found no merit in petitioners-spouses' contention that no interest is due on their principal loan obligation from the time of foreclosure until finality of the judgment annulling the foreclosure sale. According to the CA:

x x x Notably, this Court disregarded the stipulated rate[s] of interest on the subject promissory notes after finding that the same are iniquitous and exorbitant, and for being violative of the principle of mutuality of contracts. Nevertheless, in *Equitable PCI Bank v. Ng Sheung Ngor*, the Supreme Court ruled that because the escalation clause was annulled, the principal amount of the loan was subject to the original or stipulated interest rate of interest, and that upon maturity, the amount due was subject to legal interest at the rate of 12% per annum. In this case, while we similarly annulled the escalation clause contained in the promissory notes, this Court opted not to impose the original rates of interest stipulated therein for being excessive, the same being 17.5% to 27% per interest period.

Relevantly, the High Court held in *Asian Cathay Finance and Leasing Corporation v. Spouses Cesario Gravador and Norma De Vera, et. al.* that stipulations authorizing the imposition of iniquitous or unconscionable interest are contrary to morals, if not against the law. x x x. The nullity of the stipulation on the usurious interest does not, however, affect the lender's right to recover the principal of the loan. The debt due is to be considered without the stipulation of the excessive interest. A legal interest of 12% per annum will be added in place of the excessive interest formerly imposed.

Following the foregoing rulings of the Supreme Court, it is clear that the imposition by this Court of a 12% rate of interest per annum on the principal loan obligation of [petitioners-spouses], computed from the time of default, is proper as it is consistent with prevailing jurisprudence.

While the decisions of the Special Seventh Division and the Ninth Division of this Court in CA-G.R. CV No. 75303 and in CA-G.R. No. 76029 are final and executory, **the same merely have persuasive effect but do not outweigh the decisions of the Supreme Court which we are duty-bound to follow, conformably with the principle of *stare decisis*.**

¹⁴ CA rollo, pp. 226-229; Resolution of the CA dated 13 October 2010 in CA-G.R. CV No. 91250 denying respondent bank bank's Motion for Reconsideration.

The doctrine of *stare decisis* enjoins adherence to judicial precedents. It requires courts in a country to follow the rule established in a decision of the Supreme Court thereof. That decision becomes a judicial precedent to be followed in subsequent cases by all courts in the land. The doctrine of *stare decisis* is based on the principle that once a question of law has been examined and decided, it should be deemed settled and closed to further argument.¹⁵ (Emphasis supplied.)

Petitioners-spouses are now before us, reiterating their position that no interest should be imposed on their loan, following the respective pronouncements of the CA in the *Caraig* and *Mercado* Cases. Petitioners-spouses insist that “[i]f the application of the doctrine of operative facts is upheld, as applied in ***Caraig vs. Alday***, x x x, interest in the instant case would be computed only from the finality of judgment declaring the foreclosure sale null and void. If ***Mercado vs. China Banking Corporation*** x x x, applying by analogy the rule on void usurious interest to void potestative interest rate, is further sustained, no interest is due when the potestative interest rate stipulation is declared null and void, as in the instant case.¹⁶

Our Ruling

We dismiss the appeal.

We cannot subscribe to the contention of petitioners-spouses that no interest should be due on the loan they obtained from respondent bank, or that, at the very least, interest should be computed only from the finality of the judgment declaring the foreclosure sale null and void, on account of the exorbitant rate of interest imposed on their loan.

It is clear from the contract of loan between petitioners-spouses and respondent bank that petitioners-spouses, as borrowers, agreed to the payment of interest on their loan obligation. That the rate of interest was subsequently declared illegal and unconscionable does not entitle petitioners-spouses to stop payment of interest. It should be emphasized that only the rate of interest was declared void. The stipulation requiring petitioners-spouses to pay interest on their loan remains valid and binding. They are, therefore, liable to pay interest from the time they defaulted in payment until their loan is fully paid.

¹⁵ Id. at 228-229.

¹⁶ *Rollo*, p. 41.

It is worth mentioning that both the RTC and the CA are one in saying that “[petitioners-spouses] cannot be considered in default for their inability to pay the arbitrary, illegal and unconscionable interest rates and penalty charges unilaterally imposed by [respondent] bank.”¹⁷ This is precisely the reason why the foreclosure proceedings involving petitioners-spouses’ properties were invalidated. As pointed out by the CA, “since the interest rates are null and void, [respondent] bank has no right to foreclose [petitioners-spouses’] properties and any foreclosure thereof is illegal. x x x. Since there was no default yet, it is premature for [respondent] bank to foreclose the properties subject of the real estate mortgage contract.”¹⁸

Thus, for the purpose of computing the amount of liability of petitioners-spouses, they are considered in default from the date the Resolution of the Court in G.R. No. 194164 (*Philippine National Bank v. Spouses Bayani H. Andal and Gracia G. Andal*) – which is the appeal interposed by respondent bank to the Supreme Court from the judgment of the CA – became final and executory. Based on the records of G.R. No. 194164, the Court denied herein respondent bank’s appeal in a Resolution dated 10 January 2011. The Resolution became final and executory on 20 May 2011.¹⁹

In addition, pursuant to Circular No. 799, series of 2013, issued by the Office of the Governor of the Bangko Sentral ng Pilipinas on 21 June 2013, and in accordance with the ruling of the Supreme Court in the recent case of *Dario Nacar v. Gallery Frames and/or Felipe Bordey, Jr.*,²⁰ effective 1 July 2013, the rate of interest for the loan or forbearance of any money, goods or credits 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. Accordingly, the rate of interest of 12% per annum on petitioners-spouses’ obligation shall apply from 20 May 2011 – the date of default – until 30 June 2013 only. From 1 July 2013 until fully paid, the legal rate of 6% per annum shall be applied to petitioners-spouses’ unpaid obligation.

IN VIEW OF THE FOREGOING, the Petition is **DENIED** and the Judgment of the Court of Appeals in CA-G.R. CV No. 91250 is **AFFIRMED** with the **MODIFICATION** that the 12% interest per annum shall be applied from the date of default until 30 June 2013 only, after which date and until fully paid, the outstanding obligation of petitioners-spouses shall earn interest at 6% per annum. Let the records of this case be

¹⁷ Id. at 63.

¹⁸ Id.

¹⁹ Id. at 276.

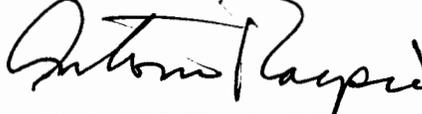
²⁰ G.R. No. 189871, 13 August 2013.

remanded to the trial court for the proper computation of the amount of liability of petitioners Spouses Bayani H. Andal and Gracia G. Andal, in accordance with the pronouncements of the Court herein and with due regard to the payments previously made by petitioners-spouses.

SO ORDERED.

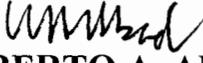

JOSE PORTUGAL PEREZ
Associate Justice

WE CONCUR:


ANTONIO T. CARPIO
Chairperson


ARTURO D. BRION
Associate Justice


MARIANO C. DEL CASTILLO
Associate Justice


ROBERTO A. ABAD
Associate Justice

ATTESTATION

I attest that the conclusions in the above Decision were reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.


ANTONIO T. CARPIO
Associate Justice
Chairperson, Second Division

CERTIFICATION

Pursuant to Section 13, Article VIII of the Constitution, and the Division Chairperson's Attestation, it is hereby certified that the conclusions in the above Decision were reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.


MA. LOURDES P. A. SERENO
Chief Justice