Republic of the Philippines
Supreme Court
Manila

SECOND DIVISION

SPOUSES SALVADOR ABELLA AND ALMA ABELLA, Petitioners,	**G.R. No. 195166** Present:
-versus-	PERALTA, *J.** BERSAMIN,** DEL CASTILLO, *Acting Chairperson**** MENDOZA, and LEONEN, *JJ.*
SPOUSES ROMEO ABELLA AND ANNIE ABELLA, Respondents.	**Promulgated:** 08 JUL 2015

x----------x

DECISION

LEONEN, *J.*:

This resolves a Petition for Review on Certiorari under Rule 45 of the Rules of Court praying that judgment be rendered reversing and setting aside the September 30, 2010 Decision[1] and the January 4, 2011 Resolution[2] of the Court of Appeals Nineteenth Division in CA-G.R. CV No. 01388. The Petition also prays that respondents Spouses Romeo and Annie Abella be ordered to pay petitioners Spouses Salvador and Alma Abella 2.5%

---

* Designated Acting Member per S.O. No. 2088 dated July 1, 2015.
** Designated Acting Member per S.O. No. 2079 dated June 29, 2015.
*** Designated Acting Chairperson per S.O. No. 2087 (Revised) dated July 1, 2015.
1 *Rollo*, pp. 28–42. The Decision was penned by Associate Justice Ramon A. Cruz and concurred in by Associate Justices Pampio A. Abarintos and Myra V. Garcia-Fernandez of the Court of Appeals Cebu.
2 Id. at 50–51.

monthly interest plus the remaining balance of the amount loaned.

The assailed September 30, 2010 Decision of the Court of Appeals reversed and set aside the December 28, 2005 Decision[3] of the Regional Trial Court, Branch 8, Kalibo, Aklan in Civil Case No. 6627. It directed petitioners to pay respondents □148,500.00 (plus interest), which was the amount respondents supposedly overpaid. The assailed January 4, 2011 Resolution of the Court of Appeals denied petitioners' Motion for Reconsideration.

The Regional Trial Court's December 28, 2005 Decision ordered respondents to pay petitioners the supposedly unpaid loan balance of □300,000.00 plus the allegedly stipulated interest rate of 30% per annum, as well as litigation expenses and attorney's fees.[4]

On July 31, 2002, petitioners Spouses Salvador and Alma Abella filed a Complaint[5] for sum of money and damages with prayer for preliminary attachment against respondents Spouses Romeo and Annie Abella before the Regional Trial Court, Branch 8, Kalibo, Aklan. The case was docketed as Civil Case No. 6627.[6]

In their Complaint, petitioners alleged that respondents obtained a loan from them in the amount of □500,000.00. The loan was evidenced by an acknowledgment receipt dated March 22, 1999 and was payable within one (1) year. Petitioners added that respondents were able to pay a total of □200,000.00—□100,000.00 paid on two separate occasions—leaving an unpaid balance of □300,000.00.[7]

In their Answer[8] (with counterclaim and motion to dismiss), respondents alleged that the amount involved did not pertain to a loan they obtained from petitioners but was part of the capital for a joint venture involving the lending of money.[9]

Specifically, respondents claimed that they were approached by petitioners, who proposed that if respondents were to "undertake the management of whatever money [petitioners] would give them, [petitioners] would get 2.5% a month with a 2.5% service fee to [respondents]."[10] The 2.5% that each party would be receiving represented their sharing of the 5%

---

3 Id. at 102–112. The Decision was penned by Judge Eustaquio G. Terencio.
4 Id. at 112.
5 Id. at 53–55.
6 Id. at 29.
7 Id. at 53–55.
8 Id. at 58–63.
9 Id. at 59.
10 Id.

interest that the joint venture was supposedly going to charge against its debtors. Respondents further alleged that the one year averred by petitioners was not a deadline for payment but the term within which they were to return the money placed by petitioners should the joint venture prove to be not lucrative. Moreover, they claimed that the entire amount of □500,000.00 was disposed of in accordance with their agreed terms and conditions and that petitioners terminated the joint venture, prompting them to collect from the joint venture's borrowers. They were, however, able to collect only to the extent of □200,000.00; hence, the □300,000.00 balance remained unpaid.[11]

In the Decision[12] dated December 28, 2005, the Regional Trial Court ruled in favor of petitioners. It noted that the terms of the acknowledgment receipt executed by respondents clearly showed that: (a) respondents were indebted to the extent of □500,000.00; (b) this indebtedness was to be paid within one (1) year; and (c) the indebtedness was subject to interest. Thus, the trial court concluded that respondents obtained a simple loan, although they later invested its proceeds in a lending enterprise.[13] The Regional Trial Court adjudged respondents solidarily liable to petitioners. The dispositive portion of its Decision reads:

> WHEREFORE, premises considered, judgment is hereby rendered:
>
> 1. Ordering the defendants jointly and severally to pay the plaintiffs the sum of P300,000.00 with interest at the rate of 30% per annum from the time the complaint was filed on July 31, 2002 until fully paid;
>
> 2. Ordering the defendants to pay the plaintiffs the sum of P2,227.50 as reimbursement for litigation expenses, and another sum of P5,000.00 as attorney's fees.
>
> For lack of legal basis, plaintiffs' claim for moral and exemplary damages has to be denied, and for lack of merit the counter-claim is ordered dismissed.[14]

In the Order dated March 13, 2006,[15] the Regional Trial Court denied respondents' Motion for Reconsideration.

On respondents' appeal, the Court of Appeals ruled that while respondents had indeed entered into a simple loan with petitioners, respondents were no longer liable to pay the outstanding amount of □300,000.00.[16]

---

11 Id. at 59–60.
12 Id. at 102–112.
13 Id. at 111–112.
14 Id. at 112.
15 Id. at 123.
16 Id. at 39–41.

The Court of Appeals reasoned that the loan could not have earned interest, whether as contractually stipulated interest or as interest in the concept of actual or compensatory damages. As to the loan's not having earned stipulated interest, the Court of Appeals anchored its ruling on Article 1956 of the Civil Code, which requires interest to be stipulated in writing for it to be due.[17] The Court of Appeals noted that while the acknowledgement receipt showed that interest was to be charged, no particular interest rate was specified.[18] Thus, at the time respondents were making interest payments of 2.5% per month, these interest payments were invalid for not being properly stipulated by the parties. As to the loan's not having earned interest in the concept of actual or compensatory damages, the Court of Appeals, citing *Eusebio-Calderon v. People*,[19] noted that interest in the concept of actual or compensatory damages accrues only from the time that demand (whether judicial or extrajudicial) is made. It reasoned that since respondents received petitioners' demand letter only on July 12, 2002, any interest in the concept of actual or compensatory damages due should be reckoned only from then. Thus, the payments for the 2.5% monthly interest made after the perfection of the loan in 1999 but before the demand was made in 2002 were invalid.[20]

Since petitioners' charging of interest was invalid, the Court of Appeals reasoned that all payments respondents made by way of interest should be deemed payments for the principal amount of □500,000.00.[21]

The Court of Appeals further noted that respondents made a total payment of □648,500.00, which, as against the principal amount of □500,000.00, entailed an overpayment of □148,500.00. Applying the principle of *solutio indebiti*, the Court of Appeals concluded that petitioners were liable to reimburse respondents for the overpaid amount of □148,500.00.[22] The dispositive portion of the assailed Court of Appeals Decision reads:

> **WHEREFORE**, the Decision of the Regional Trial Court is hereby **REVERSED** and **SET ASIDE**, and a new one issued, finding that the Spouses Salvador and Alma Abella are **DIRECTED** to jointly and severally pay Spouses Romeo and Annie Abella the amount of P148,500.00, with interest of 6% interest (sic) *per annum* to be computed upon receipt of this decision, until full satisfaction thereof. Upon finality of this judgment, an interest as the rate of 12% *per annum*, instead of 6%, shall be imposed on the amount due, until full payment thereof.[23]

---

17 Art. 1956. No interest shall be due unless it has been expressly stipulated in writing.
18 *Rollo*, p. 39.
19 484 Phil. 87 (2004) [Per J. Ynares-Santiago, First Division].
20 *Rollo*, p. 39.
21 Id. at 39–40.
22 Id.
23 Id. at 41.

In the Resolution[24] dated January 4, 2011, the Court of Appeals denied petitioners' Motion for Reconsideration.

Aggrieved, petitioners filed the present appeal[25] where they claim that the Court of Appeals erred in completely striking off interest despite the parties' written agreement stipulating it, as well as in ordering them to reimburse and pay interest to respondents.

In support of their contentions, petitioners cite Article 1371 of the Civil Code,[26] which calls for the consideration of the contracting parties' contemporaneous and subsequent acts in determining their true intention. Petitioners insist that respondents' consistent payment of interest in the year following the perfection of the loan showed that interest at 2.5% per month was properly agreed upon despite its not having been expressly stated in the acknowledgment receipt. They add that during the proceedings before the Regional Trial Court, respondents admitted that interest was due on the loan.[27]

In their Comment,[28] respondents reiterate the Court of Appeals' findings that no interest rate was ever stipulated by the parties and that interest was not due and demandable at the time they were making interest payments.[29]

In their Reply,[30] petitioners argue that even though no interest rate was stipulated in the acknowledgment receipt, the case fell under the exception to the Parol Evidence Rule. They also argue that there exists convincing and sufficiently credible evidence to supplement the imperfection of the acknowledgment receipt.[31]

For resolution are the following issues:

First, whether interest accrued on respondents' loan from petitioners. If so, at what rate?

Second, whether petitioners are liable to reimburse respondents for the latter's supposed excess payments and for interest.

---

24 Id. at 50–51.
25 Id. at 10–25.
26 Art. 1371. In order to judge the intention of the contracting parties, their contemporaneous and subsequent acts shall be principally considered.
27 *Rollo*, pp. 19–20.
28 Id. at 128–137.
29 Id. at 133–136.
30 Id. at 178–181.
31 Id. at 178–179.

I

As noted by the Court of Appeals and the Regional Trial Court, respondents entered into a simple loan or *mutuum*, rather than a joint venture, with petitioners.

Respondents' claims, as articulated in their testimonies before the trial court, cannot prevail over the clear terms of the document attesting to the relation of the parties. "If the terms of a contract are clear and leave no doubt upon the intention of the contracting parties, the literal meaning of its stipulations shall control."[32]

Articles 1933 and 1953 of the Civil Code provide the guideposts that determine if a contractual relation is one of simple loan or *mutuum*:

> Art. 1933. By the contract of loan, *one of the parties delivers to another*, either something not consumable so that the latter may use the same for a certain time and return it, in which case the contract is called a commodatum; or *money* or other consumable thing, *upon the condition that the same amount of the same kind and quality shall be paid*, in which case the contract is simply called a loan or mutuum.
>
> Commodatum is essentially gratuitous.
>
> Simple loan may be gratuitous or with a stipulation to pay interest.
>
> In commodatum the bailor retains the ownership of the thing loaned, while in simple loan, ownership passes to the borrower.
>
> . . . .
>
> Art. 1953. A person who receives a loan of money or any other fungible thing acquires the ownership thereof, and is bound to pay to the creditor an equal amount of the same kind and quality. (Emphasis supplied)

On March 22, 1999, respondents executed an acknowledgment receipt to petitioners, which states:

> Batan, Aklan
> March 22, 1999
>
> This is to acknowledge receipt of the Amount of Five Hundred

---

32 CIVIL CODE, art. 1370.

Thousand (P500,000.00) Pesos from Mrs. Alma R. Abella, payable within one (1) year from date hereof *with interest*.

Annie C. Abella (sgd.) Romeo M. Abella (sgd.)[33] (Emphasis supplied)

The text of the acknowledgment receipt is uncomplicated and straightforward. It attests to: first, respondents' receipt of the sum of □500,000.00 from petitioner Alma Abella; second, respondents' duty to pay back this amount within one (1) year from March 22, 1999; and third, respondents' duty to pay interest. Consistent with what typifies a simple loan, petitioners delivered to respondents with the corresponding condition that respondents shall pay the same amount to petitioners within one (1) year.

II

Although we have settled the nature of the contractual relation between petitioners and respondents, controversy persists over respondents' duty to pay conventional interest, i.e., interest as the cost of borrowing money.[34]

Article 1956 of the Civil Code spells out the basic rule that "[n]o interest shall be due unless it has been expressly stipulated in writing."

On the matter of interest, the text of the acknowledgment receipt is simple, plain, and unequivocal. It attests to the contracting parties' intent to subject to interest the loan extended by petitioners to respondents. The controversy, however, stems from the acknowledgment receipt's failure to state the exact rate of interest.

Jurisprudence is clear about the applicable interest rate if a written instrument fails to specify a rate. In *Spouses Toring v. Spouses Olan*,[35] this court clarified the effect of Article 1956 of the Civil Code and noted that the legal rate of interest (then at 12%) is to apply: "In a loan or forbearance of money, according to the Civil Code, the interest due should be that stipulated in writing, and *in the absence thereof, the rate **shall** be 12% per annum*."[36]

Spouses Toring cites and restates (practically verbatim) what this court

---

33 Id. at 57.

34 *Cf*. interest on interest (i.e., interest due on conventional interest) and compensatory interest / penalty interest / indemnity interest (i.e., damages paid arising from delay in paying a fixed sum of money or delay in assessing and paying damages).

35 589 Phil. 362 (2008) [Per J. Quisumbing, Second Division].

36 Id. at 368, *citing* CIVIL CODE, art. 1956 and *Security Bank and Trust Company v. RTC of Makati, Br. 61*, 331 Phil. 787 (1996) [Per J. Hermosisima, Jr., First Division], emphasis supplied.

settled in *Security Bank and Trust Company v. Regional Trial Court of Makati, Branch 61*: "In a loan or forbearance of money, the interest due should be that stipulated in writing, and *in the absence thereof, the rate **shall** be 12% per annum*."[37]

Security Bank also refers to *Eastern Shipping Lines, Inc. v. Court of Appeals*, which, in turn, stated:[38]

> 1. When the obligation is breached, and it consists in the payment of a sum of money, i.e., a loan or forbearance of money, the interest due should be that which may have been stipulated in writing. Furthermore, the interest due shall itself earn legal interest from the time it is judicially demanded. *In the absence of stipulation, the rate of interest **shall** be 12% per annum* to be computed from default, i.e., from judicial or extrajudicial demand under and subject to the provisions of Article 1169 of the Civil Code.[39] (Emphasis supplied)

The rule is not only definite; it is cast in mandatory language. From *Eastern Shipping* to *Security Bank* to *Spouses Toring,* jurisprudence has repeatedly used the word "shall," a term that has long been settled to denote something imperative or operating to impose a duty.[40] Thus, the rule leaves no room for alternatives or otherwise does not allow for discretion. It *requires* the application of the legal rate of interest.

Our intervening Decision in *Nacar v. Gallery Frames*[41] recognized that the legal rate of interest has been reduced to 6% per annum:

> Recently, however, the Bangko Sentral ng Pilipinas Monetary Board (BSP-MB), in its Resolution No. 796 dated May 16, 2013, approved the amendment of Section 2 of Circular No. 905, Series of 1982 and, accordingly, issued Circular No. 799, Series of 2013, effective July 1, 2013, the pertinent portion of which reads:
>
> > The Monetary Board, in its Resolution No. 796 dated 16 May 2013, approved the following revisions governing the rate of interest in the absence of stipulation in loan contracts, thereby amending Section 2 of Circular No. 905, Series of 1982:
> >
> > **Section 1**. The rate of interest for the loan or

---

37 331 Phil. 787, 794 (1996) [Per J. Hermosisima, Jr., First Division], *citing Eastern Shipping Lines, Inc. v. Court of Appeals*, G.R. No. 97412, July 12, 1994, 234 SCRA 78 [Per J. Vitug, En Banc], emphasis supplied.

38 G.R. No. 97412, July 12, 1994, 234 SCRA 78 [Per J. Vitug, En Banc].

39 Id. at 95, *citing* CIVIL CODE, art. 2195, 1956, and 1169.

40 *See Philippine Registered Electrical Practitioners, Inc. v. Francia, Jr*., 379 Phil. 634 (2000) [Per J. Quisumbing, Second Division]; *University of Mindanao, Inc. v. Court of Appeals*, 659 Phil. 1 (2011) [Per J. Peralta, Second Division]; and *Bersabal v. Salvador*, 173 Phil. 379 (1978) [Per J. Makasiar, First Division].

41 G.R. No. 189871, August 13, 2013, 703 SCRA 439 [Per J. Peralta, En Banc].

> 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*.
>
> **Section 2**. In view of the above, Subsection X305.1 of the Manual of Regulations for Banks and Sections 4305Q.1, 4305S.3 and 4303P.1 of the Manual of Regulations for Non-Bank Financial Institutions are hereby amended accordingly.
>
> This Circular shall take effect on 1 July 2013.

Thus, from the foregoing, in the absence of an express stipulation as to the rate of interest that would govern the parties, *the rate of legal interest for loans or forbearance of any money, goods or credits and the rate allowed in judgments shall no longer be twelve percent (12%) per annum* — as reflected in the case of Eastern Shipping Lines and Subsection X305.1 of the Manual of Regulations for Banks and Sections 4305Q.1, 4305S.3 and 4303P.1 of the Manual of Regulations for Non-Bank Financial Institutions, before its amendment by BSP-MB Circular No. 799 — *but will now be six percent (6%) per annum effective July 1, 2013*. It should be noted, nonetheless, that the new rate could only be applied prospectively and not retroactively. Consequently, the twelve percent (12%) per annum legal interest shall apply only until June 30, 2013. Come July 1, 2013 the new rate of six percent (6%) per annum shall be the prevailing rate of interest when applicable.[42] (Emphasis supplied, citations omitted)

Nevertheless, both Bangko Sentral ng Pilipinas Circular No. 799, Series of 2013 and *Nacar* retain the definite and mandatory framing of the rule articulated in *Eastern Shipping*, *Security Bank*, and *Spouses Toring*. *Nacar* even restates *Eastern Shipping*:

> To recapitulate and for future guidance, the guidelines laid down in the case of *Eastern Shipping Lines* are accordingly modified to embody BSP-MB Circular No. 799, as follows:
>
> . . . .
>
> 1. When the obligation is breached, and it consists in the payment of a sum of money, i.e., a loan or forbearance of money, the interest due should be that which may have been stipulated in writing. Furthermore, the interest due shall itself earn legal interest from the time it is judicially demanded. *In the absence of stipulation, the rate of interest **shall** be 6% per annum* to be computed from default, i.e., from judicial or extrajudicial demand under and subject to the provisions of Article 1169 of the Civil Code.[43] (Emphasis supplied, citations omitted)

---

42 Id. at 454–456.
43 Id. at 457–458.

Thus, it remains that where interest was stipulated in writing by the debtor and creditor in a simple loan or mutuum, but no exact interest rate was mentioned, the legal rate of interest shall apply. At present, this is 6% per annum, subject to *Nacar's* qualification on prospective application.

Applying this, the loan obtained by respondents from petitioners is deemed subjected to conventional interest at the rate of 12% per annum, the legal rate of interest at the time the parties executed their agreement. Moreover, *should conventional interest still be due as of July 1, 2013, the rate of 12% per annum shall persist as the rate of* ***conventional interest***.

This is so because interest in this respect is used as a surrogate for the parties' intent, as expressed as of the time of the execution of their contract. In this sense, the legal rate of interest is an affirmation of the contracting parties' intent; that is, by their contract's silence on a specific rate, the then prevailing legal rate of interest shall be the cost of borrowing money. This rate, which by their contract the parties have settled on, is deemed to persist regardless of shifts in the legal rate of interest. Stated otherwise, the legal rate of interest, *when applied as conventional interest*, shall always be the legal rate at the time the agreement was executed and shall not be susceptible to shifts in rate.

Petitioners, however, insist on conventional interest at the rate of 2.5% per month or 30% per annum. They argue that the acknowledgment receipt fails to show the complete and accurate intention of the contracting parties. They rely on Article 1371 of the Civil Code, which provides that the contemporaneous and subsequent acts of the contracting parties shall be considered should there be a need to ascertain their intent.[44] In addition, they claim that this case falls under the exceptions to the Parol Evidence Rule, as spelled out in Rule 130, Section 9 of the Revised Rules on Evidence.[45]

It is a basic precept in legal interpretation and construction that a rule

---

[44] CIVIL CODE, art. 1371.

[45] Section 9. Evidence of written agreements. — When the terms of an agreement have been reduced to writing, it is considered as containing all the terms agreed upon and there can be, between the parties and their successors in interest, no evidence of such terms other than the contents of the written agreement.

However, a party may present evidence to modify, explain or add to the terms of written agreement if he puts in issue in his pleading:
(a) An intrinsic ambiguity, mistake or imperfection in the written agreement;
(b) The failure of the written agreement to express the true intent and agreement of the parties thereto;
(c) The validity of the written agreement; or
(d) The existence of other terms agreed to by the parties or their successors in interest after the execution of the written agreement.

The term "agreement" includes wills.

or provision that treats a subject with specificity prevails over a rule or provision that treats a subject in general terms.[46]

The rule spelled out in *Security Bank* and *Spouses Toring* is anchored on Article 1956 of the Civil Code and specifically governs simple loans or *mutuum*. Mutuum is a type of nominate contract that is specifically recognized by the Civil Code and for which the Civil Code provides a specific set of governing rules: Articles 1953 to 1961. In contrast, Article 1371 is among the Civil Code provisions generally dealing with contracts. As this case particularly involves a simple loan, the specific rule spelled out in *Security Bank* and *Spouses Toring* finds preferential application as against Article 1371.

Contrary to petitioners' assertions, there is no room for entertaining extraneous (or parol) evidence. In *Spouses Bonifacio and Lucia Paras v. Kimwa Construction and Development Corporation*,[47] we spelled out the requisites for the admission of parol evidence:

> In sum, two (2) things must be established for parol evidence to be admitted: first, that the existence of any of the four (4) exceptions has been put in issue in a party's pleading or has not been objected to by the adverse party; and second, that the parol evidence sought to be presented serves to form the basis of the conclusion proposed by the presenting party.[48]

The issue of admitting parol evidence is a matter that is proper to the trial, not the appellate, stage of a case. Petitioners raised the issue of applying the exceptions to the Parol Evidence Rule only in the Reply they filed before this court. This is the last pleading that either of the parties has filed in the entire string of proceedings culminating in this Decision. It is, therefore, too late for petitioners to harp on this rule. In any case, what is at issue is not admission of evidence per se, but the appreciation given to the evidence adduced by the parties. In the Petition they filed before this court, petitioners themselves acknowledged that checks supposedly attesting to payment of monthly interest at the rate of 2.5% were admitted by the trial court (and marked as Exhibits "2," "3," "4," "5," "6," "7," and "8").[49] What petitioners have an issue with is not the admission of these pieces of evidence but how these have not been appreciated in a manner consistent with the conclusions they advance.

Even if it can be shown that the parties have agreed to monthly

---

46 *See National Power Corporation v. Presiding Judge, RTC, 10th Judicial Region, Br. XXV, Cagayan De Oro City*, 268 Phil. 507 (1990) [Per C.J. Fernan, Third Division].

47 G.R. No. 171601, April 8, 2015, <http://sc.judiciary.gov.ph/pdf/web/viewer.html?file=/jurisprudence/2015/april2015/171601.pdf> [Per J. Leonen, Second Division].

48 Id.

49 *Rollo*, p. 19.

interest at the rate of 2.5%, this is unconscionable. As emphasized in *Castro v. Tan*,[50] the willingness of the parties to enter into a relation involving an unconscionable interest rate is inconsequential to the validity of the stipulated rate:

> The imposition of an unconscionable rate of interest on a money debt, even if knowingly and voluntarily assumed, is immoral and unjust. It is tantamount to a repugnant spoliation and an iniquitous deprivation of property, repulsive to the common sense of man. It has no support in law, in principles of justice, or in the human conscience nor is there any reason whatsoever which may justify such imposition as righteous and as one that may be sustained within the sphere of public or private morals.[51]

The imposition of an unconscionable interest rate is void ab initio for being "contrary to morals, and the law."[52]

In determining whether the rate of interest is unconscionable, the mechanical application of pre-established floors would be wanting. The lowest rates that have previously been considered unconscionable need not be an impenetrable minimum. What is more crucial is a consideration of the parties' contexts. Moreover, interest rates must be appreciated in light of the fundamental nature of interest as compensation to the creditor for money lent to another, which he or she could otherwise have used for his or her own purposes at the time it was lent. It is not the default vehicle for predatory gain. As such, interest need only be reasonable. It ought not be a supine mechanism for the creditor's unjust enrichment at the expense of another.

Petitioners here insist upon the imposition of 2.5% monthly or 30% annual interest. Compounded at this rate, respondents' obligation would have more than doubled—increased to 219.7% of the principal—by the end of the third year after which the loan was contracted if the entire principal remained unpaid. By the end of the ninth year, it would have multiplied more than tenfold (or increased to 1,060.45%). In 2015, this would have multiplied by more than 66 times (or increased to 6,654.17%). Thus, from an initial loan of only □500,000.00, respondents would be obliged to pay more than □33 million. This is grossly unfair, especially since up to the fourth year from when the loan was obtained, respondents had been assiduously delivering payment. This reduces their best efforts to satisfy their obligation into a protracted servicing of a rapacious loan.

The legal rate of interest is the presumptive reasonable compensation for borrowed money. While parties are free to deviate from this, any deviation must be reasonable and fair. Any deviation that is far-removed is

---

50 620 Phil. 239, (2009) [Per J. Del Castillo, Second Division].
51 Id. at 242-243, *citing Ibarra v. Aveyro*, 37 Phil. 273, 282 (1917) [Per J. Torres, First Division].
52 Id. at 248, *citing* CIVIL CODE, art. 1306.

suspect. Thus, in cases where stipulated interest is more than twice the prevailing legal rate of interest, it is for the creditor to prove that this rate is required by prevailing market conditions. Here, petitioners have articulated no such justification.

In sum, Article 1956 of the Civil Code, read in light of established jurisprudence, prevents the application of any interest rate other than that specifically provided for by the parties in their loan document or, in lieu of it, the legal rate. Here, as the contracting parties failed to make a specific stipulation, the legal rate must apply. Moreover, the rate that petitioners adverted to is unconscionable. The conventional interest due on the principal amount loaned by respondents from petitioners is held to be 12% per annum.

III

Apart from respondents' liability for conventional interest at the rate of 12% per annum, outstanding conventional interest—if any is due from respondents—shall itself earn legal interest from the time judicial demand was made by petitioners, i.e., on July 31, 2002, when they filed their Complaint. This is consistent with Article 2212 of the Civil Code, which provides:

> Art. 2212. Interest due shall earn legal interest from the time it is judicially demanded, although the obligation may be silent upon this point.

So, too, *Nacar* states that "the interest due shall itself earn legal interest from the time it is judicially demanded."[53]

Consistent with *Nacar,* as well as with our ruling in *Rivera v. Spouses Chua*,[54] the interest due on conventional interest shall be at the rate of 12% per annum from July 31, 2002 to June 30, 2013. Thereafter, or starting July 1, 2013, this shall be at the rate of 6% per annum.

IV

Proceeding from these premises, we find that respondents made an overpayment in the amount of □3,379.17.

As acknowledged by petitioner Salvador Abella, respondents paid a

---

53 G.R. No. 189871, August 13, 2013, 703 SCRA 439, 457 [Per J. Peralta, En Banc].

54 G.R. No. 184458, January 14, 2015, <http://sc.judiciary.gov.ph/jurisprudence/2015/january2015/184458.pdf> [Per J. Perez, First Division].

total of ₱200,000.00, which was charged against the principal amount of ₱500,000.00. The first payment of ₱100,000.00 was made on June 30, 2001,[55] while the second payment of ₱100,000.00 was made on December 30, 2001.[56]

The Court of Appeals' September 30, 2010 Decision stated that respondents paid ₱6,000.00 in March 1999.[57]

The Pre-Trial Order dated December 2, 2002,[58] stated that the parties admitted that "from the time the principal sum of ₱500,000.00 was borrowed from [petitioners], [respondents] ha[d] been religiously paying"[59] what was supposedly interest "at the rate of 2.5% per month."[60]

From March 22, 1999 (after the loan was perfected) to June 22, 2001 (before respondents' payment of ₱100,000.00 on June 30, 2001, which was deducted from the principal amount of ₱500,000.00), the 2.5% monthly "interest" was pegged to the principal amount of ₱500,000.00. These monthly interests, thus, amounted to ₱12,500.00 per month. Considering that the period from March 1999 to June 2001 spanned twenty-seven (27) months, respondents paid a total of ₱337,500.00.[61]

From June 22, 2001 up to December 22, 2001 (before respondents' payment of another ₱100,000.00 on December 30, 2001, which was deducted from the remaining principal amount of ₱400,000.00), the 2.5% monthly "interest" was pegged to the remaining principal amount of ₱400,000.00. These monthly interests, thus, amounted to ₱10,000.00 per month. Considering that this period spanned six (6) months, respondents paid a total of ₱60,000.00.[62]

From after December 22, 2001 up to June 2002 (when petitioners filed their Complaint), the 2.5% monthly "interest" was pegged to the remaining principal amount of ₱300,000.00. These monthly interests, thus, amounted to ₱7,500.00 per month. Considering that this period spanned six (6) months, respondents paid a total of ₱45,000.00.[63]

Applying these facts and the properly applicable interest rate (for conventional interest, 12% per annum; for interest on conventional interest, 12% per annum from July 31, 2002 up to June 30, 2013 and 6% per annum

---

55 *Rollo*, p. 31.
56 Id.
57 Id. at 40.
58 Id. at 125–126.
59 Id. at 125.
60 Id.
61 Id. at 40.
62 Id.
63 Id.

henceforth), the following conclusions may be drawn:

By the end of the first year following the perfection of the loan, or as of March 21, 2000, ₱560,000.00 was due from respondents. This consisted of the principal of ₱500,000.00 and conventional interest of ₱60,000.00.

Within this first year, respondents made twelve (12) monthly payments totalling ₱150,000.00 (₱12,500.00 each from April 1999 to March 2000). This was in addition to their initial payment of ₱6,000.00 in March 1999.

Application of payments must be in accordance with Article 1253 of the Civil Code, which reads:

> Art. 1253. If the debt produces interest, payment of the principal shall not be deemed to have been made until the interests have been covered.

Thus, the payments respondents made must first be reckoned as interest payments. Thereafter, any excess payments shall be charged against the principal. As respondents paid a total of ₱156,000.00 within the first year, the conventional interest of ₱60,000.00 must be deemed fully paid and the remaining amount that respondents paid (i.e., ₱96,000.00) is to be charged against the principal. This yields a balance of ₱404,000.00.

By the end of the second year following the perfection of the loan, or as of March 21, 2001, ₱452,480.00 was due from respondents. This consisted of the outstanding principal of ₱404,000.00 and conventional interest of ₱48,480.00.

Within this second year, respondents completed another round of twelve (12) monthly payments totaling ₱150,000.00.

Consistent with Article 1253 of the Civil Code, as respondents paid a total of ₱156,000.00 within the second year, the conventional interest of ₱48,480.00 must be deemed fully paid and the remaining amount that respondents paid (i.e., ₱101,520.00) is to be charged against the principal. This yields a balance of ₱302,480.00.

By the end of the third year following the perfection of the loan, or as of March 21, 2002, ₱338,777.60 was due from respondents. This consists of the outstanding principal of ₱302,480.00 and conventional interest of ₱36,297.60.

Within this third year, respondents paid a total of ₱320,000.00, as follows:

(a) Between March 22, 2001 and June 30, 2001, respondents completed three (3) monthly payments of ₱12,500.00 each, totaling ₱37,500.00.

(b) On June 30, 2001, respondents paid ₱100,000.00, which was charged as principal payment.

(c) Between June 30, 2001 and December 30, 2001, respondents delivered monthly payments of ₱10,000.00 each. At this point, the monthly payments no longer amounted to ₱12,500.00 each because the supposed monthly interest payments were pegged to the supposedly remaining principal of ₱400,000.00. Thus, during this period, they paid a total of six (6) monthly payments totaling ₱60,000.00.

(d) On December 30, 2001, respondents paid ₱100,000.00, which, like the June 30, 2001 payment, was charged against the principal.

(e) From the end of December 2002 to the end of February 2002, respondents delivered monthly payments of ₱7,500.00 each. At this point, the supposed monthly interest payments were now pegged to the supposedly remaining principal of ₱300,000.00. Thus, during this period, they delivered three (3) monthly payments totaling ₱22,500.00.

Consistent with Article 1253 of the Civil Code, as respondents paid a total of ₱320,000.00 within the third year, the conventional interest of ₱36,927.50 must be deemed fully paid and the remaining amount that respondents paid (i.e., ₱283,702.40) is to be charged against the principal. This yields a balance of ₱18,777.60.

By the end of the fourth year following the perfection of the loan, or as of March 21, 2003, ₱21,203.51 would have been due from respondents. This consists of: (a) the outstanding principal of ₱18,777.60, (b) conventional interest of ₱2,253.31, and (c) interest due on conventional interest starting from July 31, 2002, the date of judicial demand, in the amount of ₱172.60. The last (i.e., interest on interest) must be pro-rated. There were only 233 days from July 31, 2002 (the date of judicial demand) to March 21, 2003 (the end of the fourth year); this left 63.83% of the fourth

year, within which interest on interest might have accrued. Thus, the full annual interest on interest of 12% per annum could not have been completed, and only the proportional amount of 7.66% per annum may be properly imposed for the remainder of the fourth year.

From the end of March 2002 to June 2002, respondents delivered three (3) more monthly payments of □7,500.00 each. Thus, during this period, they delivered three (3) monthly payments totalling □22,500.00.

At this rate, however, payment would have been completed by respondents even before the end of the fourth year. ***Thus, for precision, it is more appropriate to reckon the amounts due as against payments made on a monthly, rather than an annual, basis***.

By April 21, 2002, □18,965.38 (i.e., remaining principal of □18,777.60 plus pro-rated monthly conventional interest at 1%, amounting to □187.78) would have been due from respondents. Deducting the monthly payment of □7,500.00 for the preceding month in a manner consistent with Article 1253 of the Civil Code would yield a balance of □11,465.38.

By May 21, 2002, □11,580.03 (i.e., remaining principal of □11,465.38 plus pro-rated monthly conventional interest at 1%, amounting to □114.65) would have been due from respondents. Deducting the monthly payment of □7,500.00 for the preceding month in a manner consistent with Article 1253 of the Civil Code would yield a balance of □4,080.03.

By June 21, 2002, □4,120.83 (i.e., remaining principal of □4,080.03 plus pro-rated monthly conventional interest at 1%, amounting to □40.80) would have been due from respondents. Deducting the monthly payment of □7,500.00 for the preceding month in a manner consistent with Article 1253 of the Civil Code would yield a negative balance of □3,379.17.

Thus, by June 21, 2002, respondents had not only fully paid the principal and all the conventional interest that had accrued on their loan. By this date, they also overpaid □3,379.17. Moreover, while hypothetically, interest on conventional interest would not have run from July 31, 2002, no such interest accrued since there was no longer any conventional interest due from respondents by then.

V

As respondents made an overpayment, the principle of *solutio indebiti*

as provided by Article 2154 of the Civil Code[64] applies. Article 2154 reads:

> Article 2154. If something is received when there is no right to demand it, and it was unduly delivered through mistake, the obligation to return it arises.

In *Moreno-Lentfer v. Wolff*,[65] this court explained the application of *solutio indebiti:*

> The quasi-contract of *solutio indebiti* harks back to the ancient principle that no one shall enrich himself unjustly at the expense of another. It applies where (1) a payment is made when there exists no binding relation between the payor, who has no duty to pay, and the person who received the payment, and (2) the payment is made through mistake, and not through liberality or some other cause.[66]

As respondents had already fully paid the principal and all conventional interest that had accrued, they were no longer obliged to make further payments. Any further payment they made was only because of a mistaken impression that they were still due. Accordingly, petitioners are now bound by a quasi-contractual obligation to return any and all excess payments delivered by respondents.

Nacar provides that "[w]hen an obligation, not constituting a loan or forbearance of money, is breached, an interest on the amount of damages awarded may be imposed *at the discretion of the court* at the rate of 6% per annum."[67] This applies to obligations arising from quasi-contracts such as *solutio indebiti*.

Further, Article 2159 of the Civil Code provides:

> Art. 2159. Whoever in bad faith accepts an undue payment, shall pay legal interest if a sum of money is involved, or shall be liable for fruits received or which should have been received if the thing produces fruits.
>
> He shall furthermore be answerable for any loss or impairment of the thing from any cause, and for damages to the person who delivered the thing, until it is recovered.

---

64 Art. 2154. If something is received when there is no right to demand it, and it was unduly delivered through mistake, the obligation to return it arises.

65 484 Phil. 552 (2004) [Per J. Quisumbing, First Division].

66 Id. at 559–560, *citing Power Commercial and Industrial Corp. v. Court of Appeals*, 340 Phil. 705 (1997) [Per J. Panganiban, Third Division]; and *National Commercial Bank of Saudi Arabia v. Court of Appeals*, 480 Phil. 391 (2003) [Per J. Carpio-Morales, Third Division].

67 *Nacar v. Gallery Frames,* G.R. No. 189871, August 13, 2013, 703 SCRA 439, 458 [Per J. Peralta, En Banc].

Consistent however, with our finding that the excess payment made by respondents were borne out of a mere mistake that it was due, we find it in the better interest of equity to no longer hold petitioners liable for interest arising from their quasi-contractual obligation.

Nevertheless, *Nacar* also provides:

> 3. When the judgment of the court awarding a sum of money becomes final and executory, the rate of legal interest, whether the case falls under paragraph 1 or paragraph 2, above, shall be 6% per annum from such finality until its satisfaction, this interim period being deemed to be by then an equivalent to a forbearance of credit.[68]

Thus, interest at the rate of 6% per annum may be properly imposed on the total judgment award. This shall be reckoned from the finality of this Decision until its full satisfaction.

WHEREFORE, the assailed September 30, 2010 Decision and the January 4, 2011 Resolution of the Court of Appeals Nineteenth Division in CA-G.R. CV No. 01388 are **SET ASIDE**. Petitioners Spouses Salvador and Alma Abella are **DIRECTED** to jointly and severally reimburse respondents Spouses Romeo and Annie Abella the amount of ₱3,379.17, which respondents have overpaid.

A legal interest of 6% per annum shall likewise be imposed on the total judgment award from the finality of this Decision until its full satisfaction.

SO ORDERED.

MARVIC M.V.F. LEONEN
Associate Justice

WE CONCUR:

DIOSDADO M. PERALTA
Associate Justice

---

[68] Id.

LUCAS P. BERSAMIN
Associate Justice

MARIANO C. DEL CASTILLO
Associate Justice
Acting Chairperson

JOSE CATRAL MENDOZA
Associate Justice

ATTESTATION

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

MARIANO C. DEL CASTILLO
Associate Justice
Acting Chairperson

CERTIFICATION

Pursuant to Section 13, Article VIII of the Constitution and the Division Acting Chairperson's Attestation, I certify that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.

MARIA LOURDES P. A. SERENO
Chief Justice