

Title: SPOUSES SALVADOR AND ALMA ABELLA VS. SPOUSES ROMEO AND ANNIE ABELLA [G.R. No. 194031, September 30, 2010]

Facts:

The case began when Spouses Salvador and Alma Abella filed a Complaint for the sum of money and damages with prayer for preliminary attachment against Spouses Romeo and Annie Abella in the Regional Trial Court (RTC) of Kalibo, Aklan, docketed as Civil Case No. 6627. The complaint, dated July 31, 2002, alleged that respondents obtained a loan of P500,000.00 payable within one (1) year with interest, from which only P200,000.00 was paid, leaving an unpaid balance.

Respondents countered that the money was not a loan but part of a capital for a joint venture in money lending, to be managed by them under a profit-sharing scheme. They argued that the agreement's one-year term was for the return of the money in case the venture was unprofitable, further claiming the entire amount was disposed of according to agreed terms, and that they were unable to recoup the full amount due to the venture's failure.

The RTC Decision on December 28, 2005, favored the petitioners, interpreting the arrangement as a simple loan subject to interest and ordered respondents to pay the remaining balance plus 30% annual interest. On appeal, the Court of Appeals (CA) reversed this decision, directing the petitioners to reimburse the respondents for overpayment. The petitioners then filed for review under certiorari in the Supreme Court.

Issues:

1. Whether interest accrued on the respondents' loan from petitioners and, if so, at what rate.
2. Whether petitioners are liable to reimburse respondents for their supposed excess payments and interest.

Court's Decision:

The Supreme Court found that the parties entered into a simple loan agreement, rather than a joint venture. The acknowledgment receipt executed by the respondents on March 22, 1999, was straightforward, confirming a debt of P500,000.00 payable with interest within one year.

Regarding the interest rate, due to the absence of a specific rate in the agreement, the legal rate of interest applies, which the Supreme Court identified as 12% per annum prior to July

1, 2013, and 6% per annum thereafter. The Court rejected the petitioners' claim for a 2.5% per month interest rate, citing it as unconscionable and highlighting the application of the legal interest rate when no specific rate is stipulated.

The Court also ruled that the payments made by the respondents were more than the amount due when computed correctly using the legal interest rates, resulting in an overpayment. Consequently, based on the principle of *solutio indebiti*, the Court ordered the petitioners to reimburse the respondents the overpaid amount, without the imposition of interest due to the mistake in payment being made in good faith.

Doctrine:

In a simple loan or *mutuum* where an interest rate is not specifically stipulated, the legal rate of interest, as determined by relevant jurisprudence and the BSP Circular, applies. The imposition of an unconscionable interest rate is void *ab initio* for being contrary to morals and law. Additionally, *solutio indebiti* applies where payment was made when there exists no binding relation or was made through mistake.

Class Notes:

- Simple loan (*mutuum*) vs. *Commodatum*: Ownership of the money or fungible thing passes to the borrower in a simple loan.
- Interest Rate: If not stipulated, the legal interest rate applies (12% per annum prior to July 1, 2013, subsequently 6% per annum).
- Unconscionability of Interest Rate: An unconscionable interest rate is void from the beginning.
- *Solutio Indebiti*: Requires reimbursement for payments made with no legal grounds, specifically when payments are made under a mistake.

Historical Background:

The context of this case demonstrates the significant implications of clear contractual terms, especially regarding interest rates in simple loan agreements. It underscores the Philippines legal system's mechanisms for correcting unjust enrichment and the application of legal interest rates when specific rates are not stipulated, facilitating a fair resolution in disputes arising from loan agreements.