

Title: Spouses David B. Carpo and Rechilda S. Carpo vs. Eleanor Chua and Elma Dy Ng ^{Digest)}

Facts:

The case involves two consolidated petitions for review regarding a loan, its secured mortgage, foreclosure proceedings, and subsequent legal actions surrounding the property.

****Initial Loan and Foreclosure:****

- On 18 July 1995, petitioners David B. Carpo and Rechilda S. Carpo borrowed P175,000 from respondents Eleanor Chua and Elma Dy Ng, securing the loan with a mortgage on their property in Camarines Sur. The loan bore an interest rate of 6% per month, to be paid within six months.
- The Carpos failed to pay back the loan upon demand. Consequently, the property was put to a foreclosure sale on 8 July 1996, where the respondents bought the property for P367,457.80.
- After the Carpos did not exercise their right of redemption, a certificate of sale was issued, leading to the cancellation of the Carpos' TCT and issuance of a new TCT No. 29338 to the respondents.
- Despite the foreclosure, the Carpos continued to occupy the property.

****Legal Proceedings:****

- Respondents filed a petition for a writ of possession, granted by the RTC on 23 March 1999.
- Carpos filed a complaint on 23 July 1999, seeking to annul the mortgage and foreclosure proceedings and consigned a significant amount to the RTC.
- Temporary restraining orders and subsequent motions were filed and contested on both sides through various court proceedings leading up to appeals to the Court of Appeals and ultimately, to the Supreme Court.

Issues:

1. Whether the stipulated interest rate of 6% per month, amounting to 72% per annum, is iniquitous, unconscionable, and therefore void.
2. If the invalidity of the interest rate affects the validity of the mortgage contract itself.
3. Whether the RTC acted within its powers in suspending the writ of possession.
4. The applicability of prescription and laches in the filing of the complaint for annulment.

Court's Decision:

- ****Interest Rate:**** Adopting principles from "Medel v. Court of Appeals," the Supreme

Digest)
Court found the interest rate of 6% per month excessive and void but ruled that such
invalidity does not invalidate the principal obligation of the loan.

- ****Validity of Mortgage Contract:**** The Court affirmed that the validity of the mortgage contract depends on the principal obligation. Since the principal loan obligation stands (albeit with a corrected interest rate), so does the mortgage contract.

- ****Suspension of Writ of Possession:**** The Court disagreed with the petitioners and upheld the Appellate Court's decision that the issuance of the writ of possession is a ministerial function of the RTC and that its suspension was improper.

- ****Prescription and Laches:**** The Court noted the delay in the Carpos' action to question the loan's terms and upheld the concept of laches, preventing the Carpos from challenging the mortgage's validity after significant time had passed.

Doctrine:

- The case reiterated the doctrine that excessive, iniquitous, and unconscionable interest rates can be voided while still preserving the validity of the principal loan obligation and, by extension, any mortgage securing such loan.

Class Notes:

- ****Key Concepts:**** Interest Rates, Mortgage Validity, Writ of Possession, Prescription, and Laches.

- ****Relevant Statutes:****

- Article 1306, Civil Code on Freedom of Contract within the bounds of law, morals, good customs, public order, or public policy.

- Article 1391, Civil Code on the annulment of voidable contracts within four years.

- Rule 65, Rules of Court on special civil actions for certiorari and mandamus.

Historical Background:

This case exemplifies the complexities of Philippine contract law, specifically the legality and consequences of stipulated interest rates in loan agreements, and the balancing act courts must perform between protecting contractual freedom and preventing exploitation. Through its decision, the Supreme Court emphasized the judiciary's role in ensuring equity and fairness in financial contracts, showcasing a pivotal moment in Philippine legal history concerning usury, contractual obligations, and remedial law.