

Title: *Spouses Roberto and Adelaida Pen vs. Spouses Santos and Linda Julian*

****Facts:****

The dispute originated from loans totaling P120,000 extended by Adelaida Pen to the Julians in April and May 1986, with initial interest deducted. To secure repayment, the Julians mortgaged their property to Pen. Subsequently, upon default, instead of foreclosure, Linda Julian purportedly offered their mortgaged property as payment, leading to a deed of sale executed on October 22, 1986. Adelaida Pen paid the relevant taxes, and a new title was issued in the Pens' name in 1987, with a reconstituted title issued in 1994 due to a fire at the Quezon City Register of Deeds.

After failed negotiations for the Julians to repurchase the property, in 1994, they discovered the title transfer and initiated legal action seeking cancellation of the sale and title, recovery of possession, and damages, arguing that the deed of sale used to transfer the land was fraudulent.

The Regional Trial Court (RTC) ruled in favor of the Julians, declaring the deed of sale void for lack of consideration, and ordered the Pens to return the property while requiring the Julians to pay the outstanding loan plus interest. This decision was appealed to the Court of Appeals (CA), which upheld the RTC's decision with modifications, specifically voiding the deed of sale but finding it so for being a prohibited pactum commissorium, adjusting the outstanding debt, and imposing legal interest rates.

****Issues:****

1. Whether the CA erred in ruling against the validity of the deed of sale.
2. Whether the CA erred in ruling that no monetary interest was due for Linda's use of Adelaida's money.

****Court's Decision:****

The Supreme Court partially granted the petition. It affirmed the CA's conclusions on the invalidity of the deed of sale but provided reasoning for the imposition of legal interest.

1. ****Validity of the Deed of Sale:**** The Court agreed with the CA that the deed of sale was void, not due to a lack of consideration as found by the RTC, but because the simultaneous execution of the blank deed of sale and the real estate mortgage constituted a pactum commissorium—a prohibited agreement allowing the creditor to appropriate the mortgaged property upon default without proper foreclosure.

2. **Interest:** The Court modified the CA's decision on interest, detailing that the unpaid balance of P43,492.15 as of June 28, 1990, would accrue legal interest at 12% per annum from October 13, 1994, until June 30, 2013, and at 6% per annum from July 1, 2013, until full payment.

Doctrine:

The case reiterates the prohibition against pactum commissorium under Article 2088 of the Civil Code, stating that a creditor cannot appropriate mortgaged properties without due foreclosure. It also discusses the application and computation of legal interest rates in the absence of a written stipulation.

Class Notes:

1. **Pactum Commissorium:** A contractual provision that allows the creditor to automatically appropriate the debtor's property upon default is void.
2. **Contract of Sale Essentials:** Consent, object, and price must concur; lack of any renders the sale void.
3. **Interest Rates:** In the absence of a stipulation, monetary interest cannot be imposed; however, compensatory interest for delay can be, subject to prevailing legal rates.
4. **Legal Interest Rates:** Changes in legal interest rates are dictated by BSP circulars and apply prospectively.

Historical Background:

The case highlights the stringent protections against unfair contractual provisions in mortgage and loan agreements within Philippine civil law, underscoring the judiciary's role in ensuring equity and fairness in contractual relations. It also reflects the legal system's dynamic response to economic conditions through adjustments in legal interest rates.