

****Title:**** Spouses Florentino T. Mallari and Aurea V. Mallari v. Prudential Bank (Now Bank of the Philippine Islands)

****Facts:**** On December 11, 1984, Florentino T. Mallari obtained a loan of ₱300,000.00 from Prudential Bank, Tarlac Branch, subject to 21% annual interest, among other charges. This loan was renewed to February 17, 1985. Florentino executed a Deed of Assignment to pay this loan using his time deposit of the same amount with the bank. On December 22, 1989, the Mallaris obtained another loan of ₱1.7 million, subject to similar terms including 23% annual interest. They executed a Deed of Real Estate Mortgage for this loan. Failing to settle their obligations, the bank demanded payment and later filed for extrajudicial foreclosure of the mortgaged property. The Mallaris filed a complaint to annul the mortgage and deeds, arguing that one loan should have been considered paid, among other disagreements. After a series of legal maneuvers concerning preliminary injunctions and temporary restraining orders, and despite a Demurrer to Evidence filed by the bank, the Regional Trial Court (RTC) dismissed the Mallaris' case. The Court found no issue with the bank's practices and interest rates. The dismissal was affirmed by the Court of Appeals (CA) upon appeal and stood ground despite a motion for reconsideration by the Mallaris.

****Issues:****

1. Whether the 23% per annum interest rate and the 12% per annum penalty charge stipulated in the Mallaris' loan agreement with Prudential Bank were excessive or unconscionable under the circumstances.

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

The Supreme Court denied the petition for review, affirming the CA's decision. The High Court held that the parties had agreed upon a 23% p.a. interest rate, which was not considered unconscionable or excessive, especially when compared to higher rates found in similar jurisprudence that were invalidated. The Court also did not find the 12% p.a. penalty charge excessive or unconscionable. The judgment emphasized the principle that a contract is the law between the parties and that they are bound to comply with its stipulations unless proven contrary to law, morals, good customs, public order, or public policy.

****Doctrine:****

The case reiterates the principles regarding freedom of contract under Article 1306 of the Civil Code, emphasizing that stipulations, clauses, terms, and conditions agreed upon by contracting parties are valid provided they are not contrary to law, morals, good customs, public order, or public policy. It also highlighted that parties to a contract are bound by its

stipulations, reinforcing the concept that a contract is the law between the parties.

****Class Notes:****

- Principles of Contract Law: Article 1306 of the Civil Code allows parties the freedom to enter into contracts and to stipulate terms provided they do not contravene laws, morals, or public policy.
- Loan Agreements and Interest Rates: The Supreme Court holds that a contractual interest rate, agreed upon by the parties, is generally upheld unless demonstrated to be clearly excessive, unconscionable, or deviating substantially from the norm or public policy.
- Penalty Charges and Liquidated Damages: Agreed-upon penalty charges in loan agreements are enforceable provided they are not proven to be excessively punitive beyond compensation for probable harm or breach and do not contravene public policy or principles of equity.

****Historical Background:****

This case reflects the evolving jurisprudence on interest rates and penalty charges in loan agreements within the Philippine legal system. It underscores the judiciary's approach towards the enforcement of contracts and reiterates the doctrine of autonomy in private contracts within the bounds of fairness, equity, and public policy. Cases like these illustrate the balance between contractual freedom and the need to prevent unconscionable terms that disproportionately prejudice either party, especially in financial agreements.