

Title: Ruiz vs. Court of Appeals and Torres (2003)

Facts:

Corazon G. Ruiz, engaged in the jewelry business, obtained multiple loans from Consuelo Torres, totaling P750,000, consolidated under a promissory note on March 22, 1995, with escalating interest and penalties for non-payment. To secure the loan, Ruiz mortgaged a property in her name in Quezon City. Thereafter, Ruiz obtained additional loans of P300,000, secured by jewelry. Despite paying the interest for a year, Ruiz defaulted in April 1996, prompting Torres to initiate foreclosure. Ruiz filed a case in RTC to enjoin the foreclosure, arguing that the mortgage was invalid due to her husband's non-participation and challenging the promissory note's fairness. The RTC issued a TRO and later a writ of preliminary injunction, ruling in favor of Ruiz by making the injunction permanent, arguing the mortgage was unenforceable and the promissory note was unconscionable. However, upon appeal, the Court of Appeals reversed the RTC's decision, validating the mortgage, considering the property as Ruiz's paraphernal property, and modifying the interest and penalties deemed excessive by the RTC.

Issues:

1. Whether the promissory note constitutes a contract of adhesion.
2. Whether the property mortgaged is paraphernal, allowing Ruiz to mortgage it without her husband's consent.
3. The legality and fairness of interest rates and penalties stipulated in the obligation from Ruiz to Torres.

Court's Decision:

1. **Contract of Adhesion:** The court found the promissory note not to be a contract of adhesion, given the negotiable nature of its terms and Ruiz's opportunity as an experienced businesswoman to review it, indicating it was not a unilateral imposition by Torres.
2. **Paraphernal Property:** The court affirmed the appellate court's decision, recognizing the mortgaged property as Ruiz's paraphernal property. The title, in the name of Ruiz, indicated sole ownership and allowed her to mortgage it without her husband's consent, rebuffing the presumption of conjugal ownership without evidence of acquisition during marriage.
3. **Interests and Penalties:** The court deemed the original interest and penalty rates excessive (36% per annum interest, among others) and reduced them to more reasonable

rates (12% per annum interest, 1% per month surcharge without compounding), guided by jurisprudence on fair and unconscionable charges.

Doctrine:

- A promissory note is not automatically a contract of adhesion if one party has an adequate opportunity to review and negotiate its terms.
- A property registered only in the name of one spouse is presumed to be paraphernal, allowing them to transact upon it without the other's consent, unless proven acquired during the marriage and conjugal.
- Excessive interest rates and penalties in loan agreements can be judicially reduced to reasonable amounts to avoid unconscionability.

Class Notes:

- Contract of Adhesion: A contract where terms are set by one party, leaving the other to "take it or leave it." Not every contract prepared by one party is deemed adhesion.
- Paraphernal vs. Conjugal Property: Properties registered solely in one spouse's name, without evidence of acquisition during marriage, are considered paraphernal, allowing transactions without the other spouse's consent.
- Interest and Penalties: While parties may negotiate interest rates, courts can intervene to adjust excessive, iniquitous, or unconscionable rates or penalties, ensuring fairness and preventing undue burden on debtors.

Historical Background:

This case reflects evolving legal interpretations concerning loan agreements, property ownership within marriage, and the judiciary's role in correcting contractual imbalances. It underscores the courts' capacity to reinterpret agreements and laws in the pursuit of equity, demonstrating the dynamic nature of legal precedents in response to societal standards of fairness and justice.