Title:
Philippine National Bank vs. AIC Construction Corporation et al.: An Examination of Unconscionable Interest Rates and the Principle of Mutuality in Contracts

Facts:
AIC Construction Corporation, owned by the Bacani Spouses, opened a current account with the Philippine National Bank (PNB) in 1988. The following year, PNB extended an omnibus credit line of P10 million to AIC Construction, which, over time, increased to P65 million by September 1998—comprising P40 million principal and P25 million in capitalized interest charges. When negotiations for the loan's restructuring through dacion en pago of properties failed, PNB demanded full payment in April 2001, eventually leading to the foreclosure of mortgaged properties.

AIC Construction filed a complaint against PNB and others in 2002, seeking annulment of interest and penalty increases, among other reliefs. The Regional Trial Court (RTC) dismissed the complaint, finding no evidence of unconscionable interest rates. However, upon appeal, the Court of Appeals modified the RTC's decision, holding the interest rates as unreasonable and unconscionable, thus adjusting them to the legal rate of interest under Nacar v. Gallery Frames. PNB's Petition for Review was subsequently denied by the Supreme Court.

Issues:
1. Whether or not the Court of Appeals erred in finding the imposed interest rates by PNB as usurious and unconscionable.
2. Application of the principle of mutuality of contracts to the determination of interest rates in a loan agreement.

Court's Decision:
The Supreme Court upheld the Court of Appeals' decision, denoting the interest charges as unconscionable and affirming the application of the legal rate of interest to the loan agreement. The Court highlighted the violation of the principle of mutuality of contracts—where a contract's validity or compliance cannot be left solely to the will of one party—and reaffirmed that courts could equitably reduce iniquitous or unconscionable interest charges to ensure fairness and justice in contractual agreements.

Doctrine:
Courts may equitably reduce unconscionable interest charges, especially if determined

through subjective and one-sided criteria, thus violating the principle of mutuality of contracts. The establishment or enforcement of iniquitous or unconscionable interest rates is against public morals and may be corrected by the state to ensure fairness and equity in contractual obligations.

Class Notes:
– **Principle of Mutuality in Contracts:** Contracts must bind both parties equally, and their validity or compliance cannot be contingent upon the sole will of one of the parties.
– **Unconscionable Interest Rates:** Courts have the authority to equitably reduce interest rates in loan agreements if they are deemed iniquitous or unconscionable, even if agreed upon by the parties.
– **Legal Rate of Interest:** When an interest rate in a loan agreement is found unconscionable, courts may apply the legal rate of interest as corrective measure.
– **Importance of Full Disclosure:** Under the Truth in Lending Act, creditors are required to fully disclose all amounts incidental to the extension of credit, including interests, to protect debtors.

Historical Background:
This case illustrates the judicial oversight on loan agreements and the power of courts to ensure fairness and equity in the imposition of interest rates, highlighting the evolving interpretation and application of contractual principles in relation to the protection of borrowers against unconscionable financial practices.