

****Title:**** Atty. Leonard Florent O. Bulatao vs. Zenaida C. Estonactoc: A Legal Examination of Unconscionable Interest Rates and Foreclosure Proceedings

****Facts:****

On June 3, 2008, Zenaida C. Estonactoc entered into a Deed of Mortgage with Atty. Leonard Florent O. Bulatao, mortgaging a parcel of land in Pongpong, Sto. Tomas, La Union as security for a Php200,000.00 loan. The agreement stipulated a 5% monthly interest rate, payable within a year. Upon Zenaida's default, Bulatao initiated foreclosure proceedings, leading to a Notice of Sale being issued on July 15, 2011.

Zenaida sought judicial relief, questioning the mortgage's legality primarily on grounds of the exorbitant interest rate, alleging it was unconscionable, and claiming discrepancies in the loan amount received. She also highlighted issues concerning property ownership and registration. Bulatao countered, asserting the loan's proceeds came from another lender and that Zenaida was fully aware and capable of handling the interest rates agreed upon.

The Regional Trial Court (RTC) dismissed Zenaida's complaint, siding with Bulatao and awarding him damages. This decision was appealed to the Court of Appeals (CA), which partly granted Zenaida's appeal, notably reducing the stipulated interest rate to 1% per month, declaring the foreclosure void, and revoking the damages awarded to Bulatao.

Dissatisfied, Bulatao appealed to the Supreme Court.

****Issues:****

1. Whether the CA erred in reducing the 5% monthly interest rate agreed upon in the Deed of Mortgage to 1% per month.
2. Whether the CA was correct in declaring the foreclosure proceedings and the subsequent certificate of sale null and void.
3. Whether the co-ownership status of the mortgaged property was sufficiently considered in the legal proceedings.

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

1. ****On Interest Rates:**** The Supreme Court decreed the 5% monthly interest rate unconscionable, voiding it in favor of a legal interest of 12% per annum from June 3, 2008, to June 30, 2013, and subsequently 6% per annum until full payment. The Court highlighted that excessively high-interest rates are contrary to morals and law, thus unenforceable.
2. ****On Foreclosure Proceedings:**** The Court upheld the CA's decision to declare the

foreclosure proceedings void. It reasoned that since the substantial overcharge in interest rates formed the basis of the foreclosure, proceeding with the foreclosure on an overstated debt was unjust and unwarranted.

3. **Regarding the Co-Ownership:** It was affirmed that Zenaida could only mortgage her share of the property, and the CA's ruling on the matter was rectified to state that the mortgage was valid only concerning Zenaida's share, without affecting the entire property owned in common.

Doctrine:

- **On Unconscionable Interest Rates:** Agreed interest rates found to be excessive, iniquitous, and unconscionable are void and unenforceable as contrary to morals and the law.
- **Regarding Foreclosure Proceedings:** Foreclosure based on an overstated obligation due to an unconscionable interest rate is invalid.
- **Property Co-Ownership:** A co-owner can only mortgage their undivided share in the property, and any agreement suggesting otherwise without the consent of all co-owners is limited only to the share of the co-owner involved in the contract.

Class Notes:

- When assessing the legality of interest rates, consider if the rate is exorbitant and unconscionable, making it void and subject to adjustment to legal or equitable rates.
- Foreclosure proceedings initiated on the basis of void and unconscionable interest rates are null and void.
- In property co-ownership, actions by one co-owner, such as mortgages, pertain only to their share unless other co-owners consent.

Historical Background:

This case underscores the evolving jurisprudential landscape concerning interest rates and the enforceability of foreclosure proceedings. It highlights the judiciary's commitment to protecting parties from unfair loan agreements and ensuring equitable treatment in property co-ownership disputes within the Philippines.