Title: Tayug Rural Bank, Inc. vs. Central Bank of the Philippines, G.R. No. L-45938

Facts:
Tayug Rural Bank, Inc., a banking corporation in Tayug, Pangasinan, took out thirteen loans from the Central Bank of the Philippines between December 28, 1962, and July 30, 1963. These loans, obtained via rediscounting, initially bore an interest rate of 1/2 of 1% per annum, later increasing to 2-1/2% per annum, and amounted to P813,000.00. As of July 15, 1969, the outstanding balance of these loans was P444,809.45.

On December 23, 1964, the Central Bank issued Memorandum Circular No. DLC-8, effective January 4, 1965, imposing an additional penalty interest rate of 10% per annum on all past due loans from rural banks. Tayug Rural Bank disputed this penalty and sued the Central Bank on June 27, 1969, to recover penalties already imposed amounting to P16,874.97 and to restrain the continued imposition of this penalty. The Bank also counterclaimed for the unpaid balance along with accrued interest and the 10% penalty.

The trial court ruled in favor of Tayug Rural Bank, ordering the Central Bank to refund the collected penalty and desist from collecting future penalties. The court also ruled, however, that Tayug Rural Bank must pay the outstanding loan balance with applicable interest, minus the 10% penalty.

The Central Bank appealed to the Court of Appeals, which subsequently elevated the legal issue to the Supreme Court.

Issues:
1. Whether the Monetary Board of the Central Bank has the authority to impose a 10% penalty on past due loans of rural banks.
2. Whether the imposition of this 10% penalty impairs the obligation of contracts.
3. Whether the omission of a penal clause in the promissory notes invalidates the imposition of additional penalties by the Central Bank.

Court’s Decision:
1. Authority to Impose Penalties: The Supreme Court held that the Central Bank lacked the authority to impose the 10% penalty on past due loans retroactively. Sections 147 and 148 of the Rules and Regulations Governing Rural Banks did provide for additional penalties, but these regulations must conform to statutory provisions. R.A. No. 720 and its amendments did not explicitly grant the Monetary Board the authority to impose such penalties. Therefore, the administrative imposition of penalties by the Central Bank was beyond its

statutory power.

2. Impairment of Contracts: The Court ruled that the retroactive imposition of administrative penalties by the Central Bank constituted an impairment of the obligation of contracts and deprived Tayug Rural Bank of its property without due process of law, as the 10% penalty clause was not included in the original promissory notes.

3. Validity Without Penal Clause in Promissory Notes: Since the promissory notes executed by Tayug Rural Bank did not contain a penalty clause, and the terms were revised only after the last loan transaction, the penalty could not be imposed retroactively. The Court held that administrative regulations cannot subvert statutory provisions or alter the terms of existing contracts.

The Court affirmed the trial court's order that the Central Bank should cease collecting the 10% penalty and refund the amounts collected. However, the Court modified the decision to award the Central Bank the 10% cost of collection as stipulated in the promissory notes.

Doctrine:
Administrative agencies can only exert powers expressly conferred by law. When statutes authorize rule-making, administrative regulations must conform to the established legislative framework and cannot retroactively alter contractual obligations. Additionally, penalties imposed administratively must align with statutory provisions and cannot be retroactively enforced.

Class Notes:
– Key Elements:
– Authority of administrative agencies: Must be within statutory limits.
– Retroactive application of rules: Generally invalid if impairing contractual obligations.
– Penalty provisions: Must be stipulated in original contracts or enabled by statutory authority.

– Relevant Legal Statutes:
– R.A. No. 720: Governs the establishment and supervision of Rural Banks.
– Sections 147 and 148, Rules and Regulations Governing Rural Banks: Related to the responsibilities and penalties for rural banks but must align with statutory authority.

Historical Background:
Post-World War II, the Philippines developed a banking system to support rural economies.

R.A. No. 720 (the Rural Banks Act) was created to establish rural banks to provide credit facilities for farmers and small merchants. Regulatory frameworks were set to supervise these banks. This case arose in a context of tightening regulatory controls and financial oversight, reflecting evolving policies to stabilize banking operations while preventing undue burdens on banks through excessive administrative penalties.