

Title: Clarita D. Aclado vs. Government Service Insurance System, G.R. No. \_\_\_\_\_ (2023)

**\*\*Facts:\*\***

Clarita D. Aclado, a public school teacher at Em's Signal Village Elementary School, took multiple loans from the Government Service Insurance System (GSIS), including Emergency Loan Assistance (ELA) and Summer One Month Salary Loan (SOS). On August 19, 2015, GSIS's National Capital Region (NCR) Department II informed Aclado of her past due accounts. Despite retiring on August 5, 2016, Aclado's loan accounts remained unpaid, accruing compounded interest of 12% per annum and penalties of 6% per annum. Her Consolidated Loan Program was not availed before retirement, leading to her retirement claim having zero proceeds, while her benefits still netted PHP 163,322.96.

Aclado disputed the loans, denying availing ELA and SOS, and requested scanned loan applications and checks on December 5, 2016. Following extensive correspondence from January 2017 to April 2018, and requests to reduce interest and penalties, GSIS Department II rejected her request due to a lack of recorded payments on her loans. Aclado's appeal was denied by the GSIS Committee on Claims on January 15, 2019.

The denial was on the grounds of adherence to Board Resolution No. 97, which had already reduced her interest arrears partially. Further appeal to the GSIS Board of Trustees was dismissed on July 9, 2019, for being out-of-time and reaffirmed by Board Resolution No. 169 on November 12, 2019. The Court of Appeals upheld these decisions in its June 3, 2021, decision and denied Aclado's motion for reconsideration on April 5, 2022.

**\*\*Issues:\*\***

1. Did the GSIS Committee on Claims' decision attain finality due to the procedural lapse of the appeal period?
2. Is Aclado entitled to a reduction of interest and penalties on her unpaid loans with GSIS?

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

1. **\*\*Finality of COC Decision:\*\***

- **\*\*Discussion:\*\*** The GSIS argued that the decision dated January 15, 2019, had become final due to Aclado's failure to file an appeal within the 60-day reglementary period. Generally, decisions become immutable upon the lapse of the appeal period if no motion for reconsideration or appeal has been filed.

- **Resolution:** The Supreme Court granted a relaxation of procedural rules, considering exceptional circumstances such as matters involving retirement benefits crucial for subsistence. It held that Aclado's failure to file within the period was justified due to delayed knowledge of the decision, the inadvertence of family members, and lack of legal counsel. Substantial justice, especially concerning hard-earned benefits, necessitated flexibility in procedural requirements.

## 2. **Reduction of Interest and Penalties:**

- **Discussion:** GSIS contended that accrued interests and penalties were legally and contractually justified. The compounded rates stipulated far exceeded the principal, leading to a massive increment in the total payable amount which Aclado disputed.

- **Resolution:** Declaring the compounded interest and penalties as iniquitous, unreasonable, and unconscionable, the Supreme Court invoked Articles 1229 and 2227 of the Civil Code, empowering courts to moderate excessive penalties. The ruling mandated waiving the compounded 12% interest per annum, only charging a flat 6% penalty per annum, from the date of default notice on August 19, 2015.

### **Doctrine:**

- The Supreme Court reiterated the power to moderate and declare penalties unconscionable under Articles 1229 and 2227 of the Civil Code.
- Procedural flexibility is warranted in the interests of substantial justice, especially involving life, liberty, honor, or property.

### **Class Notes:**

- **Doctrine of Finality and Immutability of Judgments:** Generally, decisions become immutable after lapse of appeal periods unless compelling reasons necessitate re-evaluation.
- **Civil Code, Articles 1229 and 2227:** Courts can reduce penalties if deemed unconscionable or iniquitous.
- **Prior Demand Requirement (Civil Code Article 1169):** For penalty interest to accrue, the creditor must formally demand performance from the debtor, except under certain pre-established exceptions.

### **Historical Background:**

This case reflects the evolving judicial perspective in Philippine jurisprudence towards ensuring justice by balancing procedural rigor with substantive equity. It particularly underscores the judiciary's increasing willingness to scrutinize financial obligations on equitable grounds, considering the hardships faced by retired public servants like teachers, who dedicated years of service and whose financial entanglements might lead to disproportionate and punitive financial obligations.