

Title: ****Spouses Florante and Laarni Bautista vs. Pilar Development Corporation****

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Facts

In 1978, Spouses Florante and Laarni Bautista (petitioners) purchased a house and lot in Pilar Village, Las Piñas, Metro Manila. To finance this purchase, they secured a loan of P100,180.00 from Apex Mortgage & Loan Corporation (Apex), executing a promissory note on December 22, 1978, with an interest rate of 12% per annum and a service charge of 3%. This loan was to be repaid over 240 months at P1,378.83 per month. The note authorized Apex to increase interest and/or service charges without notice in case of any legal or regulatory change.

The petitioners defaulted on several installments and, on September 20, 1982, executed a second promissory note for P142,326.43, reflecting an increased interest rate of 21% per annum over 196 months, with monthly payments of P2,576.68. This second note also authorized automatic rate adjustments.

Following further defaults in November 1983, Apex assigned the second promissory note to Pilar Development Corporation (respondent) on June 6, 1984, without informing petitioners. Respondent filed Civil Case No. 17702 in RTC Makati, Branch 138, on August 31, 1987, to recover P140,515.11 plus enhanced interests and attorney's fees. Petitioners contested the interest escalation clauses due to the absence of de-escalation provisions.

In 1995, RTC decided in favor of a 12% interest rate, while respondent's appeal pushed the Court of Appeals (CA) in 1998 to enforce the higher 21% rate and an award of 10% attorney's fees. Petitioners appealed to the Supreme Court (SC).

Issues

1. ****Whether the two promissory notes should be treated as part of a single loan transaction.****
2. ****Whether the increase of the interest rate from 12% to 21% in the second promissory note was lawful.****
3. ****Whether the 10% attorney's fees award was appropriate.****
4. ****Whether the absence of notice to petitioners regarding the assignment of credit from Apex to respondent is legally significant.****
5. ****Whether petitioners are entitled to moral and exemplary damages.****

Court's Decision

1. Contract Singularity:

The SC ruled that the first promissory note was expressly cancelled and replaced by the second, due to the specific clause marking its termination. It confirmed that there was an expressed novation, meaning the new promissory note was the prevailing contract.

2. Interest Rate Legitimacy:

Petitioners argued the new 21% interest rate was unlawful due to lack of de-escalation clauses, claiming it was against regulations. However, the SC highlighted that at the execution time of the second note, CB Circulars 705 and 712 set the effective interest ceiling at 21% for such loans. The SC upheld the CA decision to apply a 21% rate, making the escalatory clause debate moot since respondent only claimed the fixed rate.

3. Attorney's Fees:

The SC affirmed the appellate court's imposition of 10% attorney's fees, as this term was explicitly outlined in the promissory note, ensuring it was a stipulated contractual obligation and not evaluated for bad faith mitigation.

4. Notice on Credit Assignment:

Petitioners argued the assignment was invalid without notice. The SC countered that the promissory note contained a waiver of the notice to the debtor for such assignments. Thus, the notice's purpose was satisfied by the waiver clause.

5. Compensation for Damages:

The SC found no basis for moral and exemplary damages, determining petitioners did not establish bad faith conduct by the respondent, hence denying this claim.

Doctrine:

1. ****Novation:**** Express novation occurs when a new agreement stipulates the cancellation of the previous obligation, creating a legally binding new set of terms (Art. 1291 & 1292, Civil Code).
2. ****Assignment and Notification Waiver:**** Notice of credit assignment is not legally required if explicitly waived in the contract (supported by Black's Law Dictionary Interpretations).
3. ****Interest Rate Determination:**** CB Circulars can legally set interest rate adjustments overriding prior terms, supporting adherence to prescribed regulatory frameworks.
4. ****Attorney's Fees:**** Express stipulations in contracts regarding attorney's fees are

enforceable and not contingent on bad faith or equity unless found iniquitous.

Class Notes

- **Novation Elements:** Existence of previous obligation, agreement on new contract, clear extinguishment of old contract, and validity of the new obligation (Art. 1291, 1292, Civil Code).
- **Waiver of Rights:** Legally possible under contract agreements such as waiver of notice on assignment of credits.
- **Usury Law Adjustments:** Central Bank Circulars (such as CB Circular No. 705, 712) can set binding interest ceilings or remove previous caps.

Historical Background

During the 1980s, economic policies and regulations in the Philippines saw frequent changes, especially under different Central Bank Circulars adjusting financial regulations to adapt to economic conditions. This case underscores the legal impact of such circulars and the importance of explicit contractual stipulations amidst economic flux. The Supreme Court's application of regulatory changes demonstrates the judiciary's role in ensuring contract congruence with evolving financial regulations.