EASTERN ASSURANCE AND SURETY CORPORATION (EASCO), PETITIONER, VS. HON. COURT OF APPEALS, HON. TEOFISTO L. CALUMPANG, IN HIS CAPACITY AS PRESIDING JUDGE OF THE REGIONAL TRIAL COU...

G.R. No. 127135. January 18, 2000

Ponente: MENDOZA, J.

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MENDOZA, J.:

This is a petition for review of the decision of the Court of Appeals,[1] the dispositive portion of which reads:[2]

> WHEREFORE, the petition is hereby GIVEN DUE COURSE and is GRANTED. The legal interest rate to be paid by petitioner EASCO to the private respondent is 6% per annum on the amount due corresponding to the period from June 26, 1981 to August 24, 1993; and 12% per annum beginning August 25, 1993 until the money judgment shall have been fully paid. No pronouncement as to costs.
>
> SO ORDERED.

The facts of the case are as follows:

On April 9, 1981, private respondent Vicente Tan insured his building in Dumaguete City against fire with petitioner Eastern Assurance and Surety Corporation (EASCO) for P250,000.00. On June 26, 1981, the building was destroyed by fire. As his claim for indemnity was refused, private respondent filed a complaint for breach of contract with damages against petitioner. The Regional Trial Court, Branch 40, Dumaguete City, to which the case was assigned rendered judgment as follows:[3]

> WHEREFORE, judgment is rendered in favor of plaintiff [private respondent Vicente Tan] and ordering defendant [petitioner EASCO]
>
> - To pay plaintiff the sum of Two Hundred Fifty Thousand (P250,000.00) Pesos representing the fire insurance claim of plaintiff plus legal rate of interest from June 26, 1981 until fully paid;
>
> - To pay plaintiff the sum of Twenty Thousand (P20,000.00) Pesos as attorney's fees;
>
> - To pay plaintiff all expenses incurred when he went to Manila with his lawyer regarding his insurance claim;
>
> - To pay plaintiff Twenty Thousand Pesos (P20,000.00) Pesos as moral damages and Twenty Thousand (P20,000.00) Pesos as exemplary damages.
>
> SO ORDERED.

Petitioner appealed to the Court of Appeals, which, on July 30, 1993, affirmed the decision of the trial court with modification by disallowing the award of moral and exemplary damages, attorney's fees and litigation expenses. As no further appeal was taken from the decision of the Court of Appeals, the same became final and executory on August 25, 1993. Thereupon, petitioner tendered payment of the money judgment in the amount of

P250,000.00 plus interest of 6% per annum from June 26, 1981 to July 30, 1993. However, private respondent refused to accept payment on the ground that the applicable legal rate of interest was 12% per annum. Subsequently, private respondent brought the matter to the Insurance Commission. On February 27, 1995, the parties agreed before the hearing officer of the commission that the interest should be computed from June 26, 1981 to September 30, 1994. Petitioner would file with the trial court a motion to fix the legal rate of interest attaching thereto a check in the amount of P250,000.00 with 6% interest per annum.

Accordingly, on March 17, 1995, petitioner filed the necessary motion in court, attaching thereto a manager's check for P448,750.00 representing the principal sum plus 6% interest per annum for the period June 26, 1981 to September 30, 1994. On May 10, 1995, the trial court issued the assailed resolution fixing the rate of interest at 12% per annum, the dispositive portion of which reads:[4]

> WHEREFORE, premises considered, this Court hereby resolve[s] that:
>
> - The legal rate of interest imposable on the principal sum of P250,000.00 should be twelve (12%) per annum from June 26, 1981 to September 30, 1994, which is the cut-off date agreed upon by the parties;
>
> - That the manager's check issued by the defendant in the amount of P448,750.00 in favor of the plaintiff is considered as partial satisfaction of the writ of execution; and
>
> - Defendant to pay immediately to plaintiff the unpaid balance of interest of the principal amount of P250,000.00 equivalent to 6% per annum from June 26, 1981 to September 30, 1994.

Petitioner filed a motion for reconsideration which was, however, denied by the trial court. Thus, on August 30, 1995, petitioner went to the Court of Appeals on certiorari, and on November 14, 1996, the appellate court rendered a decision. Noting that the case was for breach of contract for the payment of damages for the loss or destruction of property and not for collection of a loan or forbearance of money, the Court of Appeals ruled, on the authority of Eastern Shipping Lines, Inc. v. Court of Appeals,[5] that the interest rate on the amount due should be 6% per annum from June 26, 1981 to August 24, 1993, and 12% per annum beginning August 25, 1993 (the date the decision of the trial court became final and executory) until the money judgment is paid.

Hence, this petition. Petitioner contends that[6] -

> - The Appellate Court glaringly committed an error of law in its assailed decision when it wrongfully applied the aforecited paragraph 3 of the suggested rules of thumb for future guidance [as formulated in Eastern Shipping Lines, Inc. v. Court of Appeals, 234 SCRA 78 (1994)] and unlawfully ignored or disregarded the agreed cut-off date for the payment of the legal rate of interest on the amount due, contrary to the manifestations/admissions of the parties as well as the stand of the respondent Judge in resolving the issue of applicable legal rate of interest thereon.
>
> - The application of the abovequoted paragraph 3 of the suggested rules of thumb in the computation of the applicable legal rate of interest embodied in the dispositive part of the assailed decision is tantamount to a "modification of a judgment that is at its execution stage." It is also an "addition" amounting to a material alteration of the same judgment which had been satisfied only at 6% percent interest per annum from June 26, 1981 up to September 30, 1994 (the agreed cut-off date). Hence, it cannot be allowed and is null and void.

Petitioner's contentions are without merit.

First. In Eastern Shipping Lines, Inc. v. Court of Appeals,[7] it was held:

> - When an obligation, regardless of its source, i.e., law, contracts, quasi-contracts, delicts or quasi-delicts, is breached, the contravenor can be held liable for damages. The provisions under Title XVIII on "Damages" of the Civil Code govern in determining the measure of recoverable damages.

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- With regard particularly to an award of interest in the concept of actual and compensatory damages, the rate of interest, as well as the accrual thereof, is imposed, as follows:

- When the obligation is breached, and it consists in the payment of a sum of money, i.e., a loan or forbearance of money, the interest due should be that which may have been stipulated in writing. Furthermore, the interest due shall itself earn legal interest from the time it is judicially demanded. In the absence of stipulation, the rate of interest shall be 12% per annum to be computed from default, i.e., from judicial or extrajudicial demand under and subject to the provisions of Article 1169 of the Civil Code.

- When an obligation, not constituting a loan or forbearance of money, is breached, an interest on the amount of damages awarded may be imposed at the discretion of the court at the rate of 6% per annum. No interest, however, shall be adjudged on unliquidated claims or damages except when or until the demand can be established with reasonable certainty. Accordingly, where the demand is established with reasonable certainty, the interest shall begin to run from the time the claim is made judicially or extrajudicially (Art. 1169, Civil Code) but when such certainty cannot be so reasonably established at the time the demand is made, the interest shall begin to run only from the date the judgment of the court is made (at which time the quantification of damages may be deemed to have been reasonably ascertained). The actual base for the computation of legal interest shall, in any case, be on the amount finally adjudged.

- When the judgment of the court awarding a sum of money becomes final and executory, the rate of legal interest, whether the case falls under paragraph 1 or paragraph 2, above, shall be 12% per annum from such finality until its satisfaction, this interim period being deemed to be by then an equivalent to a forbearance of credit.

Unquestionably, this case falls under the rule stated in paragraph 3. The question is whether this rule can be applied to this case. Petitioner contends that paragraph 3 cannot be applied to this case considering that the decision of July 30, 1993 of the Court of Appeals, affirming the decision of the trial court, became final and executory on August 25, 1993, whereas the decision in Eastern Shipping Lines, Inc. was rendered only on July 22, 1994. Petitioner argues that the rules stated in that case were in fact made for "future guidance" of courts and, thus, to apply paragraph 3 to the case at bar is to sanction the modification of a judgment which is already final and executory.

Contrary to petitioner’s contention, Eastern Shipping Lines, Inc. did not lay down any new rules; all that was made was to state a comprehensive summary of existing rules on the computation of legal interest. In fact, earlier in the case of Nakpil and Sons v. Court of Appeals,[8] the Court allowed the imposition of 12% legal interest per annum on money judgment from the date of its finality until fully paid. Strictly speaking, therefore, there was no retroactive application of the rules in this case.

Nor was there modification of judgment in fixing the legal rate of interest at 12% precisely because the subject case arose when the trial court failed to specify in its decision the rate of the legal interest to be imposed on the money judgment.

Second. Petitioner argues that the parties agreed on the "cut-off date" for the payment of legal interest, and that is from June 26, 1981 to September 30, 1984, which the Court of Appeals should have respected. Private respondent disputes the existence of the alleged agreement of the parties. He claims that he merely agreed to refer the issue of the applicable rate of legal interest to the trial court for resolution.[9]

We are inclined to believe the claim of petitioner. The resolution of May 10, 1995 of the trial court referred to such an agreement, and private respondent never questioned this resolution. The trial court’s finding on this point is binding. Hence, the payment of 12% legal interest per annum should commence from August 25, 1993, the date the decision of the trial court became final, up to September 30, 1994, the agreed "cut-off-date" for the payment of

legal interest.

WHEREFORE, the questioned decision is AFFIRMED with the only MODIFICATION that petitioner is ordered to pay interest on the amount due at the rate of 12% legal interest per annum from August 25, 1993 to September 30, 1994.

SO ORDERED.

Bellosillo, (Chairman), Quisumbing, and De Leon, Jr., JJ., concur.

Buena, J., took no part, having concurred in the decision below.

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[1] Per Justice Angelina Sandoval Gutierrez and concurred in by Justices Arturo B. Buena (now Associate Justice of the Supreme Court) and Conrado M. Vasquez, Jr.

[2] Decision, p. 6; Rollo, p. 29.

[3] Rollo, pp. 15, 25.

[4] Petition, p. 4; Rollo, p. 17.

[5] 234 SCRA 78 (1994)

[6] Petition, pp. 5-6; Rollo, pp. 18-19.

[7] 234 SCRA 78, 95-97.

[8] 160 SCRA 334 (1988)

[9] Rollo, p. 51.

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