

**LETICIA Y. MEDEL DR. RAFAEL MEDEL AND SERVANDO FRANCO,
PETITIONERS, VS. COURT OF APPEALS, SPOUSES VERONICA R.
GONZALES AND DANILO G. GONZALES, JR., DOING LENDING
BUSINESS UNDER ...**

G.R. No. 131622. November 27, 1998

Ponente: PARDO, J.

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PARDO, J.:

The case before the Court is a petition for review on certiorari, under Rule 45 of the Revised Rules of Court, seeking to set aside the decision of the Court of Appeals,[1] and its resolution denying reconsideration,[2] the dispositive portion of which decision reads as follows:

"WHEREFORE, the appealed judgment is hereby MODIFIED such that defendants are hereby ordered to pay the plaintiff: the sum of P500,000.00, plus 5.5% per month interest and 2% service charge per annum effective July 23, 1986, plus 1% per month of the total amount due and demandable as penalty charges effective August 23, 1986, until the entire amount is fully paid.

"The award to the plaintiff of P50,000.00 as attorney's fees is affirmed. And so is the imposition of costs against the defendants.

SO ORDERED."[3]

The Court required the respondents to comment on the petition,[4] which was filed on April 3, 1998,[5] and the petitioners to reply thereto, which was filed on May 29, 1998.[6] We now resolve to give due course to the petition and decide the case.

The facts of the case, as found by the Court of Appeals in its decision, which are considered binding and conclusive on the parties herein, as the appeal is limited to questions of law, are as follows:

On November 7, 1985, Servando Franco and Leticia Medel (hereafter Servando and Leticia) obtained a loan from Veronica R. Gonzales (hereafter Veronica), who was engaged in the money lending business under the name "Gonzales Credit Enterprises", in the amount of P50,000.00, payable in two months. Veronica gave only the amount of P47,000.00, to the borrowers, as she retained P3,000.00, as advance interest for one month at 6% per month. Servando and Leticia executed a promissory note for P50,000.00, to evidence the loan, payable on January 7, 1986.

On November 19, 1985, Servando and Leticia obtained from Veronica another loan in the amount of P90,000.00, payable in two months, at 6% interest per month. They executed a promissory note to evidence the loan, maturing on January 19, 1986. They received only P84,000.00, out of the proceeds of the loan.

On maturity of the two promissory notes, the borrowers failed to pay the indebtedness.

On June 11, 1986, Servando and Leticia secured from Veronica still another loan in the amount of P300,000.00,

maturing in one month, secured by a real estate mortgage over a property belonging to Leticia Makalintal Yaptinchay, who issued a special power of attorney in favor of Leticia Medel, authorizing her to execute the mortgage. Servando and Leticia executed a promissory note in favor of Veronica to pay the sum of P300,000.00, after a month, or on July 11, 1986. However, only the sum of P275,000.00, was given to them out of the proceeds of the loan.

Like the previous loans, Servando and Medel failed to pay the third loan on maturity.

On July 23, 1986, Servando and Leticia with the latter's husband, Dr. Rafael Medel, consolidated all their previous unpaid loans totaling P440,000.00, and sought from Veronica another loan in the amount of P60,000.00, bringing their indebtedness to a total of P500,000.00, payable on August 23, 1986. The executed a promissory note, reading as follows:

"Baliwag, Bulacan July 23, 1986

"Maturity Date August 23, 1986

"P500,000.00

"FOR VALUE RECEIVED, I/WE jointly and severally promise to pay to the order of VERONICA R. GONZALES doing business in the business style of GONZALES CREDIT ENTERPRISES, Filipino, of legal age, married to Danilo G. Gonzales, Jr., of Baliwag Bulacan, the sum of PESOS FIVE HUNDRED THOUSAND (P500,000.00) Philippine Currency with interest thereon at the rate of 5.5 PER CENT per month plus 2% service charge per annum from date hereof until fully paid according to the amortization schedule contained herein. (Underscored supplied)

"Payment will be made in full at the maturity date.

"Should I/WE fail to pay any amortization or portion hereof when due, all the other installments together with all interest accrued shall immediately be due and payable and I/WE hereby agree to pay an additional amount equivalent to one per cent (1%) per month of the amount due and demandable as penalty charges in the form of liquidated damages until fully paid; and the further sum of TWENTY FIVE PER CENT (25%) thereon in full, without deductions as Attorney's Fee whether actually incurred or not, of the total amount due and demandable, exclusive of costs and judicial or extra judicial expenses. (Underscored supplied)

"I, WE further agree that in the event the present rate of interest on loan is increased by law or the Central Bank of the Philippines, the holder shall have the option to apply and collect the increased interest charges without notice although the original interest have already been collected wholly or partially unless the contrary is required by law.

"It is also a special condition of this contract that the parties herein agree that the amount of peso-obligation under this agreement is based on the present value of peso, and if there be any change in the value thereof, due to extraordinary inflation or deflation, or any other cause or reason, then the peso-obligation herein contracted shall be adjusted in accordance with the value of the peso then prevailing at the time of the complete fulfillment of obligation.

"Demand and notice of dishonor waived. Holder may accept partial payments and grant renewals of this note or extension of payments, reserving rights against each and all indorsers and all parties to this note.

"IN CASE OF JUDICIAL Execution of this obligation, or any part of it, the debtors waive all his/their rights under the provisions of Section 12, Rule 39, of the Revised Rules of Court."

On maturity of the loan, the borrowers failed to pay the indebtedness of P500,000.00, plus interests and penalties, evidenced by the above-quoted promissory note.

On February 20, 1990, Veronica R. Gonzales, joined by her husband Danilo G. Gonzales, filed with the Regional

Trial Court of Bulacan, Branch 16, at Malolos, Bulacan, a complaint for collection of the full amount of the loan including interests and other charges.

In his answer to the complaint filed with the trial court on April 5, 1990, defendant Servando alleged that he did not obtain any loan from the plaintiffs; that it was defendants Leticia and Dr. Rafael Medel who borrowed from the plaintiffs the sum of P500,000.00, and actually received the amount and benefited therefrom; that the loan was secured by a real estate mortgage executed in favor of the plaintiffs, and that he (Servando Franco) signed the promissory note only as a witness.

In their separate answer filed on April 10, 1990, defendants Leticia and Rafael Medel alleged that the loan was the transaction of Leticia Yaptinchay, who executed a mortgage in favor of the plaintiffs over a parcel of real estate situated in San Juan, Batangas; that the interest rate is excessive at 5.5% per month with additional service charge of 2% per annum, and penalty charge of 1% per month; that the stipulation for attorney's fees of 25% of the amount due is unconscionable, illegal and excessive, and that substantial payments made were applied to interest, penalties and other charges.

After due trial, the lower court declared that the due execution and genuineness of the four promissory notes had been duly proved, and ruled that although the Usury Law had been repealed, the interest charged by the plaintiffs on the loans was unconscionable and "revolting to the conscience". Hence, the trial court applied "the provision of the New [Civil] Code" that the "legal rate of interest for loan or forbearance of money, goods or credit is 12% per annum."^[7]

Accordingly, on December 9, 1991, the trial court rendered judgment, the dispositive portion of which reads as follows:

"WHEREFORE, premises considered, judgment is hereby rendered, as follows:

"1. Ordering the defendants Servando Franco and Leticia Medel, jointly and severally, to pay plaintiffs the amount of P47,000.00 plus 12% interest per annum from November 7, 1985 and 1% per month as penalty, until the entire amount is paid in full.

"2. Ordering the defendants Servando Franco and Leticia Y. Medel to plaintiffs, jointly and severally the amount of P84,000.00 with 12% interest per annum and 1% per cent per month as penalty from November 19, 1985 until the whole amount is fully paid;

"3. Ordering the defendants to pay the plaintiffs, jointly and severally, the amount of P285,000.00 plus 12% interest per annum and 1% per month as penalty from July 11, 1986, until the whole amount is fully paid;

"4. Ordering the defendants to pay plaintiffs, jointly and severally, the amount of P50,000.00 as attorney's fees;

"5. All counterclaims are hereby dismissed.

"With costs against the defendants."^[8]

In due time, both plaintiffs and defendants appealed to the Court of Appeals.

In their appeal, plaintiffs-appellants argued that the promissory note, which consolidated all the unpaid loans of the defendants, is the law that governs the parties. They further argued that Circular No. 416 of the Central Bank prescribing the rate of interest for loans or forbearance of money, goods or credit at 12% per annum, applies only in the absence of a stipulation on interest rate, but not when the parties agreed thereon.

The Court of Appeals sustained the plaintiffs-appellants' contention. It ruled that "the Usury Law having become 'legally inexistent' with the promulgation by the Central Bank in 1982 of Circular No. 905, the lender and

borrower could agree on any interest that may be charged on the loan".[9] The Court of Appeals further held that "the imposition of 'an additional amount equivalent to 1% per month of the amount due and demandable as penalty charges in the form of liquidated damages until fully paid' was allowed by law".[10]

Accordingly, on March 21, 1997, the Court of Appeals promulgated its decision reversing that of the Regional Trial Court, disposing as follows:

"WHEREFORE, the appealed judgment is hereby MODIFIED such that defendants are hereby ordered to pay the plaintiffs the sum of P500,000.00, plus 5.5% per month interest and 2% service charge per annum effective July 23, 1986, plus 1% per month of the total amount due and demandable as penalty charges effective August 24, 1986, until the entire amount is fully paid.

"The award to the plaintiffs of P50,000.00 as attorney's fees is affirmed. And so is the imposition of costs against the defendants.

"SO ORDERED."[11]

On April 15, 1997, defendants-appellants filed a motion for reconsideration of the said decision. By resolution dated November 25, 1997, the Court of Appeals denied the motion.[12]

Hence, defendants interposed the present recourse via petition for review on certiorari.[13]

We find the petition meritorious.

Basically, the issue revolves on the validity of the interest rate stipulated upon. Thus, the question presented is whether or not the stipulated rate of interest at 5.5% per month on the loan in the sum of P500,000.00, that plaintiffs extended to the defendants is usurious. In other words, is the Usury Law still effective, or has it been repealed by Central Bank Circular No. 905, adopted on December 22, 1982, pursuant to its powers under P.D. No. 116, as amended by P.D. No. 1684?

We agree with petitioners that the stipulated rate of interest at 5.5% per month on the P500,000.00 loan is excessive, iniquitous, unconscionable and exorbitant.¹³ However, we can not consider the rate "usurious" because this Court has consistently held that Circular No. 905 of the Central Bank, adopted on December 22, 1982, has expressly removed the interest ceilings prescribed by the Usury Law^[14] and that the Usury Law is now "legally inexistent".^[15]

In *Security Bank and Trust Company vs. Regional Trial Court of Makati, Branch 61*^[16] the Court held that CB Circular No. 905 "did not repeal nor in any way amend the Usury Law but simply suspended the latter's effectivity." Indeed, we have held that "a Central Bank Circular can not repeal a law. Only a law can repeal another law."^[17] In the recent case of *Florendo vs. Court of Appeals*^[18], the Court reiterated the ruling that "by virtue of CB Circular 905, the Usury Law has been rendered ineffective". "Usury has been legally non-existent in our jurisdiction. Interest can now be charged as lender and borrower may agree upon."^[19]

Nevertheless, we find the interest at 5.5% per month, or 66% per annum, stipulated upon by the parties in the promissory note iniquitous or unconscionable, and, hence, contrary to morals ("contra bonos mores"), if not against the law.^[20] The stipulation is void.^[21] The courts shall reduce equitably liquidated damages, whether intended as an indemnity or a penalty if they are iniquitous or unconscionable.^[22]

Consequently, the Court of Appeals erred in upholding the stipulation of the parties. Rather, we agree with the trial court that, under the circumstances, interest at 12% per annum, and an additional 1% a month penalty charge as liquidated damages may be more reasonable.

WHEREFORE, the Court hereby REVERSES and SETS ASIDE the decision of the Court of Appeals promulgated on March 21, 1997, and its resolution dated November 25, 1997. Instead, we render judgment REVIVING and AFFIRMING the decision dated December 9, 1991, of the Regional Trial Court of Bulacan, Branch 16, Malolos, Bulacan, in Civil Case No. 134-M-90, involving the same parties.

No pronouncement as to costs in this instance

SO ORDERED.

Narvasa, C.J. (Chairman), Romero, Kapunan, and Purisima, JJ., concur.

[1] CA-G.R. CV No. 36096, promulgated on March 21, 1997.

[2] Issued on November 25, 1995.

[3] Rollo, pp. 22-28.

[4] Resolution dated February 23, 1998, p. 44, Rollo.

[5] Rollo, pp. 45-48.

[6] Rollo, pp. 53-56.

[7] Petition, Rollo, pp. 8-21, 17.

[8] Rollo, pp 36-A-43.

[9] Citing *Verdejo v. Court of Appeals*, 157 SCRA 743 (1988); *Liam Law v. Olympic Sawmill Co.*, 129 SCRA 439 (1984).

[10] Citing Article 2209, Civil Code, and *State Investment House, Inc. v. Court of Appeals*, 198 SCRA 390.

[11] Rollo, p. 27.

[12] Rollo, p. 36.

[13] Rollo, pp. 8-21.

13 Petition, pp. 15-17, Rollo.

[14] *People v. Dizon*, 329 Phil. 687 [1996].

[15] *Liam Law v. Olympic Sawmill Co.*, 129 SCRA 439, 442.

[16] 331 Phil. 787 [1996].

[17] *Palanca v. Court of Appeals*, 238 SCRA 593, 601 [1994].

[18] 333 Phil. 535 [1996].

[19] *People v. Dizon*, *supra*, citing other cases.

[20] Article 1306, Civil Code.

[21] Cf. *Ibarra v. Aveyro*, 37 Phil. 274; *Almeda v. Court of Appeals*, 256 SCRA 292 [1996].

[22] Article 2227, Civil Code; *Joe's Radio and Electrical Supply v. Alto Electronics Corp.*, 104 Phil. 33 [1958];

Social Security Commission v. Almeda, 168 SCRA 474 [1988]; Palmares v. Court of Appeals, G.R. No. 126490, March 31, 1998, reported in The Court Systems Journal, Special Edition 1, October, 1998, pp. 79-93.

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