RIZAL COMMERCIAL BANKING CORPORATION, PETITIONER, VS. ALFA RTW MANUFACTURING CORPORATION, BA FINANCE CORPORATION, NORTH AMERICAN GARMENTS CORPORATION, JOHNNY TENG, RAMON LEE, AN...

G.R. No. 133877. November 14, 2001

Ponente: SANDOVAL-GUTIERREZ, J.

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SANDOVAL-GUTIERREZ, J.:

Petition for review on certiorari assailing the decision of the Court of Appeals in CA-G.R. C.V. No. 42293.

On March 12, 1982, Rizal Banking Corporation (RCBC) filed with the Regional Trial Court of Makati, Branch 145, Civil Case No. 2624 for a sum of money against Alfa RTW Manufacturing Corporation, Johnny Teng, Ramon Lee, Antonio Lacdao, Ramon Luy and Alfa Integrated Textile Mills. Asserting a superior right over the property involved in the suit, North Atlantic Garments Corporation filed a complaint in intervention. BA Finance Corporation, claiming as mortgagee of the same property, filed an answer in intervention. After hearing, the trial court rendered judgment on August 19, 1991, the dispositive portion[1] of which reads:

> "WHEREFORE, judgment is rendered in favor of plaintiff as follows:
>
> - Ordering all defendants to pay, jointly and severally, to plaintiff the amount of Eighteen Million Nine Hundred Sixty-one Thousand Three Hundred Seventy-two Pesos and Forty-three Centavos (P18,961,372.43), Philippine Currency, (inclusive of interest, service charges, litigation expenses and attorney's fees), with interest thereon at the legal rate from February 15, 1988 until fully paid. The proceeds from the sale of defendant Alfa's ready to wear apparel, in the sum of P73,133.70, should be deducted from the principal obligation of P18,961,372.43;
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> - Declaring that the respective liens of intervenors BA Finance Corporation and North American Garments Corporation over the properties attached by the sheriff are inferior to that of plaintiff.
>
> - Ordering defendants and intervenors to pay the proportionate costs.
>
> "SO ORDERED."

On appeal, the Court of Appeals affirmed with modification[2] the RTC decision, thus:

> "WHEREFORE, premises considered, the decision appealed from is hereby AFFIRMED, with the modification that instead of P18,961,372.43, all the defendants are hereby ordered to pay, jointly and severally to plaintiff the amount of P3,060,406.25, Philippine Currency, inclusive of stipulated interest, service charges, litigation expenses and attorney's fees, with interest thereon at the legal rate from February 15, 1988, until fully paid.
>
> "All other disquisitions of the trial court are hereby AFFIRMED.
>
> "SO ORDERED."

In this petition, RCBC questions the Court of Appeals decision insofar as it modified the RTC decision by decreasing the award in its favor from P18,961.372.43 to P3,060,406.25. In assailing the Court of Appeals decision, petitioner RCBC raises a question of law, that is, whether or not the Court of Appeals can deviate from the provisions of the contract between the parties, which contract is the law between them.

The facts as summarized by the Court of Appeals are:

> "From the records of the case, it appears that defendant Alfa RTW Manufacturing Corporation (Alfa RTW), on separate instances, had applied for and was granted by the plaintiff Rizal Commercial Banking Corporation (RCBC) four Letters of Credit (RO-80/2487, RO-80/2789, RO-80/D-1795 and RO-81/D-1800 marked as Exhibits "A", "D", "G", and "J", respectively) to facilitate its purchase of raw materials for its garments business. Upon such letters of credit, corresponding bills of exchange (Exhibits "B", "E", "H", and "K") of various amounts were drawn, and charged to the account of said defendants.
>
> The defendant Alfa RTW, in turn, had executed four Trust Receipts (Exhibits "C", "F", "I" and "L"), stipulating that it had received in trust for the plaintiff bank the goods and merchandise described therein, and which were purchased with the drawings upon the letters of credit.
>
> When the obligations upon the said commercial documents became due, the plaintiff demanded payment of the defendants' undertakings, citing two documents allegedly executed by the individual defendants Johnny Teng, Ramon Lee, Antonio D. Lacdao and Ramon Uy and Alfa Integrated Textile Mills Inc. (Alfa ITM), labeled Comprehensive Surety Agreements (Exhibits "N" and "M") dated September 8, 1978 and October 10, 1979.
>
> Under such Comprehensive Surety Agreements, it was essentially agreed that for and in consideration of any existing indebtedness to plaintiff bank of defendant Alfa RTW and/or in order to induce the plaintiff bank at any time thereafter to make loans or advances or increases thereof or to extend credit in any other manner to or for the account of defendant, Alfa ITM and the signatory officers agreed to guarantee in joint and several capacity the punctual payment at maturity to plaintiff bank of any and all such indebtedness and/or other obligations and also any and all indebtedness of every kind which was then or may thereafter become due or owing to plaintiff bank by the defendant Alfa RTW, together with any and all expenses of collection, etc., provided, however, that the liability of individual defendants and defendant Alfa Integrated Textile Mills, Inc. thereunder shall not exceed the sum of P4,000,000.00 and P7,500,000.00 and such interest as may accrue thereon and expenses as may be incurred by plaintiff bank. (p. 4, Complaint)"

Petitioner RCBC contends that the Court of Appeals erred in awarding to it the minimal sum of P3,060,406.25 instead of P18,961,372.43 granted by the trial court.

The rule is well settled that the jurisdiction of this Court in cases brought before it from the Court of Appeals via Rule 45 of the 1997 Rules of Civil Procedure, as amended, is limited to reviewing errors of law. Findings of fact of the latter court are conclusive, except in a number of instances. In Siguan vs. Lim[3] this Court enumerated those instances when the factual findings of the Court of Appeals are not deemed conclusive, to wit: (1) when the conclusion is a finding grounded entirely on speculations, surmises or conjectures; (2) when the inference made is manifestly mistaken, absurd or impossible; (3) when there is grave abuse of discretion; (4) when the judgment is based on a misapprehension of facts; (5) when the findings of facts are conflicting; (6) when the Court of Appeals, in making its findings, went beyond the issues of the case and the same is contrary to the admissions of both the appellant and appellee; (7) when the findings are contrary to those of the trial court; (8) when the findings are conclusions without citation of specific evidence on which they are based; (9) when the facts set forth in the petition as well as in the petitioner's main and reply briefs are not disputed by the respondent; and (10) when the findings of fact are premised on the supposed absence of evidence and contradicted by the evidence on record.

In the case at bar, exception No. 6 is present. Here, the Court of Appeals made findings "contrary to the

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admissions" of the parties. We refer to the terms and conditions agreed upon by petitioner RCBC and respondent borrowers in the Trust Receipts[4] and the Comprehensive Surety Agreements.[5]

Significantly, the validity of those contracts is not being questioned. It follows that the very terms and conditions of the same contracts become the law between the parties.

Herein lies the reversible error on the part of the Court of Appeals. When it ruled that only P3,060,406.25 should be awarded to petitioner RCBC, the Appellate Court disregarded the parties' stipulations in their contracts of loan, more specifically, those pertaining to the agreed (1) interest rates, (2) service charges and (3) penalties in case of any breach thereof.[6] Indeed, the Court of Appeals failed to apply this time-honored doctrine:

> "That which is agreed to in a contract is the law between the parties. Thus, obligations arising from contracts have the force of law between the contracting parties and should be complied with in good faith."[7]
>
> "The Court cannot vary the terms and conditions therein stipulated unless such stipulation is contrary to law, morals, good customs, public order or public policy."[8]

In relation to the determination and computation of interest payments, this Court, in Eastern Shipping Lines, Inc. vs. Court of Appeals,[9] through Mr. Justice Jose C. Vitug, held:

> "The ostensible discord is not difficult to explain. The factual circumstances may have called for different applications, guided by the rule that the courts are vested with discretion, depending on the equities of each case, on the award of interest. Nonetheless, it may not be unwise, by way of clarification and reconciliation, to suggest the following rules of thumb for future guidance.
>
> - 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.
>
> - 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." (Emphasis supplied).

The case now before us involves an obligation arising from a letter of credit-trust receipt transaction. Under this

arrangement, a bank extends to a borrower a loan covered by the letter of credit, with the trust receipt as security of the loan.[10] A trust receipt is "a security transaction intended to aid in financing importers and retail dealers who do not have sufficient funds or resources to finance the importation or purchase of merchandise, and who may not be able to acquire credit except thru utilization, as collateral, of the merchandise imported or purchased."[11]

In contracts contained in trust receipts, the contracting parties may establish agreements, terms and conditions they may deem advisable, provided they are not contrary to law, morals or public order.[12] In the case at bar, there are specific amounts of interest, service charges and penalties agreed upon by the parties. Pertinent provisions in the four (4) trust receipts (TR. No. 1909, TR. No. 1932, TR. No. 1732, and TR No. 2065)[13] read:

> "All obligations of the undersigned under this Trust Receipt shall bear interest at the rate of sixteen per centum (16%) per annum plus service charge of two per centum (2%) per annum from the date of the execution of this Trust Receipt until paid. It is expressly agreed and understood that regardless of the maturity date hereof, I/we hereby authorize the said Bank to correspondingly increase the interest of this Trust Receipt to the extent allowed by law without notice to me/us whenever the Central Bank of the Philippines raises the interest on borrowings of Banks or the interest provided for in the Usury Law, or whenever, in the sole judgment of the holder of this Trust Receipt is warranted by the increase in money market rates or by similar events.
>
> Without prejudice to the criminal action that may be brought by the Bank against the entrustee by reason of default or breach of this Trust Receipt, I/we agree to pay a penalty and/or liquidated damages equivalent to six per centum (6%) per annum of the amount due and unpaid.
>
> In the event of the bringing of any action or suit by you or any default of the undersigned hereunder: I/we shall on demand pay you reasonable attorney's and other fees and cost of collection, which shall in no case be less than ten per centum (10%) of the value of the property and the amount involved by the action or suit.
>
> If there are two or more signatories on this Trust Receipt, our obligations hereunder shall in all cases be joint and several."

Applying the above-quoted rules of thumb in the computation of interest, as enunciated by this Court in Eastern Shipping Lines, Inc.,[14] the principal amount of loans corresponding to each trust receipt must earn an interest at the rate of sixteen percent (16%) per annum[15] with the stipulated service charge of two percent (2%) per annum on the loan principal or the outstanding balance thereof,[16] from the date of execution until finality of this Decision.[17] A penalty of six percent (6%) per annum of the amount due and unpaid must also be imposed computed from the date of demand (in this case on March 9, 1982),[18] until finality of Judgment.[19] The interest of 16% percent per annum, as long as unpaid, also earns interest, computed from the date of the filing of the complaint (March 12, 1982) until finality of this Court's Decision.[20] From such date of finality, the total unpaid amount (principal + interest + service charge + penalty + interest on the interest) computed shall earn interest of 12% per annum until satisfied.

The Court of Appeals awarded only the sum of P3,060,406.25 as it was the amount prayed for in the complaint. The Appellate Court, however, failed to consider that the complaint was filed on March 12, 1982, or just a year after the execution of the trust receipts. The computed interests then, the service charge, the penalty and the attorney's fees corresponded only to one year. The interest on the interest could not have been computed then since the finality of judgment could not yet be ascertained. Significantly, from the filing of the complaint on March 12, 1982 up to the time the Appellate Court's decision was promulgated, on May 14, 1998, there had been a lapse of sixteen years. The computed interest in 1982 would no longer be true in 1998. What the Appellate Court should have done then was to compute the total amount due in accordance with the rules of thumb laid down by this Court in Eastern Shipping Lines, Inc.,[21] the resulting formula of which is as follows:

TOTAL AMOUNT DUE = principal + interest + service charge + penalty + interest on interest

Interest = principal x 16 % per annum x no. of years from date of execution until finality of judgment

Service charge = principal x 2% per annum x no. of years from date of execution until finality of judgment

Penalty = principal x 6% per annum x no. of years from demand (March 9, 1982) until finality of judgment

Interest on interest = Interest computed as of the filing of the complaint (March 12, 1982) x 12% x no. of years until finality of judgment

Attorney's fees is 10% of the total amount computed as of finality of judgment

Total amount due as of the date of finality of judgment will earn an interest of 12% per annum until fully paid.

The total amount due corresponding to each of the four (4) contracts of loan may be easily determined by the trial court through a simple mathematical computation based on the formula specified above. Mathematics is an exact science, the application of which needs no further proof from the parties.

WHEREFORE, the petition is hereby GRANTED. The assailed decision of the Court of Appeals is MODIFIED in the sense that the award to petitioner RCBC of P3,060,406.25 is SET ASIDE and substituted with an amount to be computed by the trial court, upon finality of this Decision, in accordance with the formula indicated above.

SO ORDERED.

Melo, (Chairman), Vitug, Panganiban, and Carpio, JJ., concur.

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[1] Rollo, p. 165.

[2] The Court of Appeals Decision was penned by Justice Rodrigo V. Cosico, concurred in by Justices Delilah Vidallon-Magtolis and Artemio Tuquero of the special 8[th] Division.

[3] 318 SCRA 725 (1999), citing Sta. Maria vs. Court of Appeals, 285 SCRA 351 (1998). See also Malaysian Airline System Bernard vs. Court of Appeals, G.R. No. 78015, December 11, 1987.

[4] Rollo, pp. 120-123.

[5] Records, pp. 448, 44.

[6] Letters of credit marked as Exhibits "A", "D", "G", "J", and corresponding bills of exchange marked as Exhibits "B", "E", "H", and "K"; also trust receipts marked as Exhibits "C", "F", "I", and "L".

[7] Cuizon vs. Court of Appeals, 260 SCRA 654 (1996).

[8] Article 1306, Civil Code of the Philippines.

[9] 234 SCRA 78 (1994).

[10] Vintola vs. Insular Bank of Asia and America, 150 SCRA 578 (1987).

[11] Ching vs. Court of Appeals, 331 SCRA 16 (2000), citing Samo vs. People, 5 SCRA 354 (1962).

[12] Samo vs. People, supra, citing Philippine National Bank vs. Vda. E Hijos de Angel Jose, 63 Phil. 814 (1936).

[13] Annex "D", "D-1", "D-2", "D-3", Rollo, pp. 47-50.

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[14] Supra.

[15] Subparagraph 1 of paragraph II of the rules of thumb, "Eastern Shipping Lines vs. Court of Appeals", supra.

[16] L.M. Handicraft Corp. vs. Court of Appeals, G.R. No. 90047, June 18, 1990 and Allied Banking Corporation vs. L.M. Handicraft Manufacturing Corporation, G.R. 90425, June 18, 1990, 186 SCRA 640, 645.

[17] Pursuant to Subparagraph 3 of paragraph II, rules of thumb, supra.

[18] Records, p. 450.

[19] In accordance with Subparagraph 2 of paragraph II, rules of thumb, supra.

[20] Subparagraph 1 of paragraph II, Id.

[21] Supra.

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