TRADE & INVESTMENT DEVELOPMENT CORPORATION OF THE PHILIPPINES (FORMERLY PHILIPPINE EXPORT & FOREIGN LOAN GUARANTEE CORPORATION, PETITIONER, VS. ROBLETT INDUSTRIAL CONSTRUCTION C...

G.R. NO. 139290. May 19, 2006

Ponente: TINGA, J.

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TINGA, J.:

Under consideration are the motion for reconsideration[1] dated 23 December 2005 and supplemental motion for reconsideration[2] dated 23 January 2006, both filed by respondent Paramount Insurance Corporation (Paramount) with regard to our Decision[3] dated 11 November 2005 which disposed of the case as follows:

> WHEREFORE, premises considered, the petition is hereby GRANTED. The Decision of the Court of Appeals is REVERSED and the judgment of the Regional Trial Court is REINSTATED with the following modifications:
>
> a) ordering respondents Roblett, the Abieras, and Paramount, jointly and severally, to pay petitioner Philguarantee the amount of P11,775,611.25, with the following rates of interest and penalty charge, to wit:
>
> - for respondent Paramount, eighteen percent (18%) interest per annum from 5 June 1990 until fully paid;
>
> - for respondents Roblett and the Abieras, sixteen percent (16%) interest per annum from 5 June 1990 until fully paid; and penalty charge of sixteen percent (16%) per annum compounded monthly from 5 June 1990 until fully paid;
>
> b) ordering respondents Roblett and the Abieras, jointly and severally, to pay petitioner Philguarantee the amount of P18,029,219.78 plus 12% interest thereon from the time of finality of judgment until fully paid;
>
> c) ordering respondents Roblett and the Abieras, jointly and severally, to pay petitioner Philguarantee ten percent (10%) of P11,775,611.25, as attorney's fees, plus the costs of suit;
>
> d) ordering respondent Paramount, jointly and severally with respondents Roblett and the Abieras, to pay petitioner Philguarantee P100,000.00 as reasonable attorney's fees;
>
> e) ordering respondents Roblett and Benlot, jointly and severally, to reimburse respondent Paramount whatever amount it would pay petitioner Philguarantee including all interests, attorney's fees and the costs; and
>
> f) ordering all the respondents, jointly and severally, and the third-party defendants, also jointly and severally, to pay petitioner Philguarantee legal interest of 12% per annum on the judgment awards respectively against them from the time of finality of judgment until fully paid.
>
> SO ORDERED.[4]

In support of its motion for reconsideration, Paramount submits the following grounds: (1) Paramount issued a bidder's bond and not a performance or guarantee bond so that when respondent Roblett Industrial Construction

Corporation (Roblett) executed the sub-contract agreement, Paramount was released from liability thereunder; (2) petitioner is guilty of misrepresentation and concealment in securing Paramount's continuing commitment to answer for Roblett's repayment scheme; (3) petitioner and Roblett entered into a rehabilitation program which novated the principal obligation of the parties resulting in the discharge of Paramount; (4) the subject surety bond expired without any claim being made against the same; and (5) Paramount is not liable for attorney's fees.

The supplemental motion for reconsideration essentially reiterates the allegations and arguments found in the motion for reconsideration with the additional contention that the interest charge on the principal debt is unconscionable.

We have perused the instant motions and find no new substantial arguments to warrant the reversal or modification of our Decision. Respondent's motion essentially concerns issues that have been passed upon and fully considered by the Court in the decision sought to be reconsidered. Thus, we find no cogent reason to depart from the ruling subject of this recourse. The only matter left to be resolved is the validity of the interest charge against the principal amount involved in this case.

Under the surety bond,[5]Paramount bound itself jointly and severally with Roblett to pay petitioner to the extent of P11,775,611.35 for whatever damages and liabilities the latter may suffer by virtue of its counterguarantee. Paramount further agreed to pay petitioner interest thereon at the rate of 18% per annum from the date of receipt of petitioner's first demand letter up to the date of actual payment.

In our Decision, we found that none of the parties questioned the validity of the stipulated interest rate. Finding the same legal, we upheld its validity. With the suspension of the Usury Law and the removal of interest ceiling, the parties are free to stipulate the interest to be imposed on monetary obligations. Absent any evidence of fraud, undue influence, or any vice of consent exercised by one party against the other, the interest rate agreed upon is binding upon them.[6] Nevertheless, we ruled that Paramount's liability therefor should commence from the date of judicial demand, or on 5 June 1990, and not from the date petitioner made a formal notice of demand to Paramount. This is but fair as the delay in the performance of Paramount is attributable to the failure of petitioner to inform the former of the developments in the negotiations with Roblett.

Paramount argues that it is made liable for approximately P48 million, the bulk of which is the interest charge and not the principal amount. It then submits that the interest is clearly iniquitous, unconscionable and exorbitant, thus contrary to morals,[7] citing our ruling in Medel v. Court of Appeals.[8] In the said case, we held as void the stipulation on interest at the rate of 5.5% per month or 66% per annum, on a P500,000.00 loan, the same being "excessive, iniquitous, unconscionable and exorbitant, hence, contrary to morals ("contra bonos mores"), if not against the law."[9]

It would seem that Paramount's opposition to the interest awarded herein does not spring from the invalidity of the stipulated interest rate but rather on the resulting amount of interest charge alone, which if counted from the date of judicial demand would come to roughly P32 million which is thrice the amount of the principal debt of P11,775,611.35.

While the Court recognizes the right of the parties to enter into contracts and who are expected to comply with their terms and obligations, this rule is not absolute. Stipulated interest rates are illegal if they are unconscionable[10] and the Court is allowed to temper interest rates when necessary.[11] In exercising this vested power to determine what is iniquitous and unconscionable, the Court must consider the circumstances of each case.[12] What may be iniquitous and unconscionable in one case, may be just in another. In a number of cases,[13] this Court equitably reduced the interest rate agreed upon by the parties for being iniquitous, unconscionable, and/or exhorbitant.

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Notably in the case of Development Bank of the Philippines v. Court of Appeals[14], while this Court held that respondents were liable for the stipulated interest rate of 18% per annum, we equitably reduced the same to 10% per annum after finding that the interests and penalty charges alone exceeded the amount of the principal debt. As such, the interests were found to be excessive. We further held that the additional penalty charge of 8% per annum would sufficiently cover whatever else damages petitioner may have incurred such as attorney's fees and litigation expenses.

In the instant case, the resulting interest charge has turned out to be excessive in the context of its base computation period, and hence, unwarranted in fact and in operation. We are not unmindful of the length of time this case has been pending in court for which the amount involved has ballooned to the outrageous amount of more than P45 million which is four times the principal debt.

While we have sustained the validity of much higher interest rates of 21% per annum in Bautista v. Pilar Development Corporation[15] and 24% per annum in Garcia v. Court of Appeals[16] as the factual circumstances therein warrant, it is well to note that compared to the instant case, the said cases were litigated for a shorter period of time-12 years and 3 years, respectively. Development Bank of the Philippines[17] was finally decided after only 10 years of litigation. Here, the complaint was filed in the lower court on 5 June 1990 or sixteen (16) years ago. Consequently, the already huge principal debt swelled to a considerably disproportionate sum. Thus, we deem an interest rate of 12% per annum is more reasonable under the circumstances.

WHEREFORE, premises considered, respondent Paramount's motion for reconsideration and supplemental motion for reconsideration are GRANTED IN PART and our assailed Decision dated 11 November 2005 is hereby MODIFIED. The interest rate of 18% per annum as stipulated in the surety bond is equitably reduced to 12% per annum. The Decision is AFFIRMED WITH FINALITY in all other respects.

SO ORDERED.

Puno, (Chairman), Austria-Martinez, Callejo, Sr., and Chico-Nazario, JJ., concur.

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[1]Rollo, pp. 265-293.

[2] Id. at 339-374.

[3]Id. at 222-264.

[4] Id. at. 262-263.

[5] Records, p. 23.

[6] Pascual v. Ramos, G.R. No. 144712, July 4, 2002, 384 SCRA 105, 115.

[7]Rollo, p. 370.

[8] G.R. No. 131622, November 27, 1998, 299 SCRA 481.

[9]Id. at 489.

[10] Ruiz v. Court of Appeals, G.R. No. 146942, April 22, 2003, 401 SCRA 410.

[11] State Investment House, Inc. v. Court of Appeals, G.R. No. 112590, July 12, 2001, 361 SCRA 201.

[12]Rizal Commercial Banking Corporation. v. Court of Appeals, G.R. Nos. 128833, 128834, and 128866, April 20, 1998, 289 SCRA 292, 312.

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[13] See Medel v. Court of Appeals, supra note 8; Development Bank of the Philippines v. Court of Appeals, G.R. No. 137557, October 30, 2000, 334 SCRA 492; Ruiz v. Court of Appeals, supra note 10; Imperial v. Jaucian, G.R. No. 149004, April 14, 2004, 427 SCRA 517; Carpo v. Chua, G.R. Nos. 150773 & 153599, September 30, 2005.

[14] G.R. No. 137557, October 30, 2000, 344 SCRA 492.

[15] G.R. No. 135046, August 17, 1999, 312 SCRA 611.

[16] G.R. Nos. L-82282-83, November 24, 1988, 167 SCRA 815.

[17] Supra note 13.

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