

RESTITUTA M. IMPERIAL, PETITIONER, VS. ALEX A. JAUCIAN, RESPONDENT.

G.R. No. 149004. April 14, 2004

Ponente: PANGANIBAN, J.

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PANGANIBAN, J.:

Iniquitous and unconscionable stipulations on interest rates, penalties and attorney's fees are contrary to morals. Consequently, courts are granted authority to reduce them equitably. If reasonably exercised, such authority shall not be disturbed by appellate courts.

The Case

Before us is a Petition for Review[1] under Rule 45 of the Rules of Court, assailing the July 19, 2000 Decision[2] and the June 14, 2001 Resolution[3] of the Court of Appeals (CA) in CA-GR CV No. 43635. The decretal portion of the Decision is as follows:

“WHEREFORE, premises considered, the appealed Decision of the Regional Trial Court, 5th Judicial Region, Branch 21, Naga City, dated August 31, 1993, in Civil Case No. 89-1911 for Sum of Money, is hereby AFFIRMED in toto.”[4]

The assailed Resolution denied petitioner's Motion for Reconsideration.

The dispositive portion of the August 31, 1993 Decision, promulgated by the Regional Trial Court (RTC) of Naga City (Branch 21) and affirmed by the CA, reads as follows:

“Wherefore, Judgment is hereby rendered declaring Section I, Central Bank Circular No. 905, series of 1982 to be of no force and legal effect, it having been promulgated by the Monetary Board of the Central Bank of the Philippines with grave abuse of discretion amounting to excess of jurisdiction; declaring that the rate of interest, penalty, and charges for attorney's fees agreed upon between the parties are unconscionable, iniquitous, and in violation of Act No. 2655, otherwise known as the Usury Law, as amended; and ordering Defendant to pay Plaintiff the amount of FOUR HUNDRED SEVENTY-EIGHT THOUSAND, ONE HUNDRED NINETY-FOUR and 54/100 (P478,194.54) PESOS, Philippine currency, with regular and compensatory interests thereon at the rate of twenty-eight (28%) per centum per annum, computed from August 31, 1993 until full payment of the said amount, and in addition, an amount equivalent to ten (10%) per centum of the total amount due and payable, for attorney's fees, without pronouncement as to costs.”[5]

The Facts

The CA summarized the facts of the case in this wise:

“The present controversy arose from a case for collection of money, filed by Alex A. Jaucian against Restituta Imperial, on October 26, 1989. The complaint alleges, inter alia, that defendant obtained from plaintiff six (6) separate loans for which the former executed in favor of the latter six (6) separate promissory notes and issued several checks as guarantee for payment. When the said loans became overdue and unpaid, especially when the

defendant's checks were dishonored, plaintiff made repeated oral and written demands for payment.

"Specifically, the six (6) separate loans obtained by defendant from plaintiff on various dates are as follows:

(a)

November 13, 1987

P 50,000.00

(b)

December 28, 1987

40,000.00

(c)

January 6, 1988

30,000.00

(d)

January 11, 1988

50,000.00

(e)

January 12, 1988

50,000.00

(f)

January 13, 1988

100,000.00

Total

P320,000.00

"The loans were covered by six (6) separate promissory notes executed by defendant. The face value of each promissory notes is bigger [than] the amount released to defendant because said face value already include[d] the interest from date of note to date of maturity. Said promissory notes, which indicate the interest of 16% per month, date of issue, due date, the corresponding guarantee checks issued by defendant, penalties and attorney's fees, are the following:

- Exhibit 'D' – for loan of P40,000.00 on December 28, 1987, with face value of P65,000.00;
- Exhibit 'E' – for loan of P50,000.00 on January 11, 1988, with face value of P82,000.00;
- Exhibit 'F' – for loan of P50,000.00 on January 12, 1988, with face value of P82,000.00;
- Exhibit 'G' – for loan of P100,000.00 on January 13, 1988, with face value of P164,000.00;
- Exhibit 'H' – This particular promissory note covers the second renewal of the original loan of P50,000.00 on November 13, 1987, which was renewed for the first time on March 16, 1988 after certain payments, and

which was renewed finally for the second time on January 4, 1988 also after certain payments, with a face value of P56,240.00;

- Exhibit 'I' – This particular promissory note covers the second renewal of the original loan of P30,000.00 on January 6, 1988, which was renewed for the first time on June 4, 1988 after certain payments, and which was finally renewed for the second time on August 6, 1988, also after certain payments, with [a] face value of P12,760.00;

“The particulars about the postdated checks, i.e., number, amount, date, etc., are indicated in each of the promissory notes. Thus, for Exhibit 'D', four (4) PB checks were issued; for Exhibit 'E' four (4) checks; for Exhibit 'F' four (4) checks; for Exhibit 'G' four (4) checks; for Exhibit 'H' one (1) check; for Exhibit 'I' one (1) check;

“The arrangement between plaintiff and defendant regarding these guarantee checks was that each time a check matures the defendant would exchange it with cash.

“Although, admittedly, defendant made several payments, the same were not enough and she always defaulted whenever her loans mature[d]. As of August 16, 1991, the total unpaid amount, including accrued interest, penalties and attorney's fees, [was] P2,807,784.20.

“On the other hand, defendant claims that she was extended loans by the plaintiff on several occasions, i.e., from November 13, 1987 to January 13, 1988, in the total sum of P320,000.00 at the rate of sixteen percent (16%) per month. The notes mature[d] every four (4) months with unearned interest compounding every four (4) months if the loan [was] not fully paid. The loan releases [were] as follows:

(a)

November 13, 1987

P 50,000.00

(b)

December 28, 1987

40,000.00

(c)

January 6, 1988

30,000.00

(d)

January 11, 1988

50,000.00

(e)

January 12, 1988

50,000.00

(f)

January 13, 1988

100,000.00

Total

P320,000.00

“The loan on November 13, 1987 and January 6, 1988 ha[d] been fully paid including the usurious interests of 16% per month, this is the reason why these were not included in the complaint.

“Defendant alleges that all the above amounts were released respectively by checks drawn by the plaintiff, and the latter must produce these checks as these were returned to him being the drawer if only to serve the truth. The above amount are the real amount released to the defendant but the plaintiff by masterful machinations made it appear that the total amount released was P462,600.00. Because in his computation he made it appear that the true amounts released was not the original amount, since it include[d] the unconscionable interest for four months.

“Further, defendant claims that as of January 25, 1989, the total payments made by defendants [were] as follows:

a.

Paid releases on November 13, 1987 of P50,000.00 and January 6, 1988 of P30,000.00 these two items were not included in the complaint affirming

the fact that these were paid

P 80,000.00

b.

Exhibit ‘26’ Receipt

231,000.00

c.

Exhibit ‘8-25’ Receipt

65,300.00

d.

Exhibit ‘27’ Receipt

65,000.00

Total

P441,780.00

Less:

320,000.00

Excess Payment

P121,780.00

“Defendant contends that from all perspectives the above excess payment of P121,780.00 is more than the interest that could be legally charged, and in fact as of January 25, 1989, the total releases have been fully paid.

“On 31 August 1993, the trial court rendered the assailed decision.”[6]

Ruling of the Court of Appeals

On appeal, the CA held that without judicial inquiry, it was improper for the RTC to rule on the constitutionality of Section 1, Central Bank Circular No. 905, Series of 1982. Nonetheless, the appellate court affirmed the judgment of the trial court, holding that the latter’s clear and detailed computation of petitioner’s outstanding obligation to respondent was convincing and satisfactory.

Hence, this Petition.[7]

The Issues

Petitioner raises the following arguments for our consideration:

“1.

That the petitioner has fully paid her obligations even before filing of this case.

“2.

That the charging of interest of twenty-eight (28%) per centum per annum without any writing is illegal.

“3.

That charging of excessive attorney’s fees is hemorrhagic.

“4.

Charging of excessive penalties per month is in the guise of hidden interest.

“5.

The non-inclusion of the husband of the petitioner at the time the case was filed should have dismissed this case.”[8]

The Court’s Ruling

The Petition has no merit.

First Issue:

Computation of Outstanding Obligation

Arguing that she had already fully paid the loan before the filing of the case, petitioner alleges that the two lower courts misappreciated the facts when they ruled that she still had an outstanding balance of P208,430.

This issue involves a question of fact. Such question exists when a doubt or difference arises as to the truth or the falsehood of alleged facts; and when there is need for a calibration of the evidence, considering mainly the credibility of witnesses and the existence and the relevancy of specific surrounding circumstances, their relation to each other and to the whole, and the probabilities of the situation.[9]

It is a well-entrenched rule that pure questions of fact may not be the subject of an appeal by certiorari under Rule 45 of the Rules of Court, as this remedy is generally confined to questions of law.[10] The jurisdiction of this Court over cases brought to it is limited to the review and rectification of errors of law allegedly committed by the lower court. As a rule, the latter’s factual findings, when adopted and affirmed by the CA, are final and conclusive and may not be reviewed on appeal.[11]

Generally, this Court is not required to analyze and weigh all over again the evidence already considered in the proceedings below.[12] In the present case, we find no compelling reason to overturn the factual findings of the RTC -- that the total amount of the loans extended to petitioner was P320,000, and that she paid a total of only P116,540 on twenty-nine dates. These findings are supported by a preponderance of evidence. Moreover, the amount of the outstanding obligation has been meticulously computed by the trial court and affirmed by the CA. Petitioner has not given us sufficient reason why her cause falls under any of the exceptions to this rule on the finality of factual findings.

Second Issue:

Rate of Interest

The trial court, as affirmed by the CA, reduced the interest rate from 16 percent to 1.167 percent per month or 14 percent per annum; and the stipulated penalty charge, from 5 percent to 1.167 percent per month or 14 percent per annum.

Petitioner alleges that absent any written stipulation between the parties, the lower courts should have imposed the rate of 12 percent per annum only.

The records show that there was a written agreement between the parties for the payment of interest on the subject loans at the rate of 16 percent per month. As decreed by the lower courts, this rate must be equitably reduced for being iniquitous, unconscionable and exorbitant. "While the Usury Law ceiling on interest rates was lifted by C.B. Circular No. 905, nothing in the said circular grants lenders carte blanche authority to raise interest rates to levels which will either enslave their borrowers or lead to a hemorrhaging of their assets." [13]

In *Medel v. CA*, [14] the Court found the stipulated interest rate of 5.5 percent per month, or 66 percent per annum, unconscionable. In the present case, the rate is even more iniquitous and unconscionable, as it amounts to 192 percent per annum. When the agreed rate is iniquitous or unconscionable, it is considered "contrary to morals, if not against the law. [Such] stipulation is void." [15]

Since the stipulation on the interest rate is void, it is as if there were no express contract thereon. [16] Hence, courts may reduce the interest rate as reason and equity demand. We find no justification to reverse or modify the rate imposed by the two lower courts.

Third and Fourth Issue:

Penalties and Attorney's Fees

Article 1229 of the Civil Code states thus:

"The judge shall equitably reduce the penalty when the principal obligation has been partly or irregularly complied with by the debtor. Even if there has been no performance, the penalty may also be reduced by the courts if it is iniquitous or unconscionable."

In exercising this power to determine what is iniquitous and unconscionable, courts must consider the circumstances of each case. [17] What may be iniquitous and unconscionable in one may be totally just and equitable in another. In the present case, iniquitous and unconscionable was the parties' stipulated penalty charge of 5 percent per month or 60 percent per annum, in addition to regular interests and attorney's fees. Also, there was partial performance by petitioner when she remitted P116,540 as partial payment of her principal obligation of P320,000. Under the circumstances, the trial court was justified in reducing the stipulated penalty charge to the more equitable rate of 14 percent per annum.

The Promissory Note carried a stipulation for attorney's fees of 25 percent of the principal amount and accrued

interests. Strictly speaking, this covenant on attorney's fees is different from that mentioned in and regulated by the Rules of Court.[18] "Rather, the attorney's fees here are in the nature of liquidated damages and the stipulation therefor is aptly called a penal clause." [19] So long as the stipulation does not contravene the law, morals, public order or public policy, it is binding upon the obligor. It is the litigant, not the counsel, who is the judgment creditor entitled to enforce the judgment by execution.

Nevertheless, it appears that petitioner's failure to comply fully with her obligation was not motivated by ill will or malice. The twenty-nine partial payments she made were a manifestation of her good faith. Again, Article 1229 of the Civil Code specifically empowers the judge to reduce the civil penalty equitably, when the principal obligation has been partly or irregularly complied with. Upon this premise, we hold that the RTC's reduction of attorney's fees -- from 25 percent to 10 percent of the total amount due and payable -- is reasonable.

Fifth Issue:

Non-Inclusion of Petitioner's Husband

Petitioner contends that the case against her should have been dismissed, because her husband was not included in the proceedings before the RTC.

We are not persuaded. The husband's non-joinder does not warrant dismissal, as it is merely a formal requirement that may be cured by amendment.[20] Since petitioner alleges that her husband has already passed away, such an amendment has thus become moot.

WHEREFORE, the Petition is DENIED. Costs against petitioner.

SO ORDERED.

Davide, Jr., C.J., (Chairman), Ynares-Santiago, Carpio, and Azcuna, JJ., concur.

[1] Rollo, pp. 13-42.

[2] Id., pp. 43-54. Special Twelfth Division. Penned by Justice Bernardo P. Abesamis and concurred in by Justices Eugenio S. Labitoria (Division chairman) and Elvi John S. Asuncion (member).

[3] Id., p. 73.

[4] Assailed CA Decision, p. 11; rollo, p. 53.

[5] RTC Decision, p. 14; rollo, p. 68. Written by Judge David C. Naval.

[6] Assailed CA Decision, pp. 2-6; rollo, pp. 44-48.

[7] This case was deemed submitted for resolution on May 14, 2002, upon receipt by the Court of petitioner's Memorandum, which was signed by Atty. Alfredo V. Abundo. Respondent's Memorandum, filed on March 26, 2002, was signed by Atty. Fred P. Cledera.

[8] Petitioner's Memorandum, p. 7; rollo, p. 206.

[9] *Sesbreño v. Court of Appeals*, 310 Phil. 671, January 26, 1995.

[10] *Spouses Uy v. Court of Appeals*, 411 Phil. 788, June 21, 2001; *Metropolitan Bank and Trust Company v. Wong*, 412 Phil. 207, June 26, 2001; *Spouses Solangon v. Salazar*, 412 Phil. 816, June 29, 2001; *Llana v. Court of Appeals*, 361 SCRA 27, July 11, 2001.

[11] Go v. Court of Appeals, 351 SCRA 145, February 5, 2001.

[12] Bañas v. Asia Pacific Finance Corporation, 343 SCRA 527, October 18, 2000.

[13] Spouses Solangon v. Salazar, *supra*, p. 822, per Sandoval-Gutierrez, J.

[14] 359 Phil. 820, November 27, 1998; citing Art. 1306, Civil Code.

[15] *Id.*, p. 830, per Pardo, J. See also Ibarra v. Aveyro, 37 Phil. 274, December 6, 1917; Spouses Almeda v. Court of Appeals, 326 Phil. 309, April 17, 1996.

[16] Tongoy v. Court of Appeals, 123 SCRA 99, June 28, 1983.

[17] RCBC v. Court of Appeals, 352 Phil. 101, April 20, 1998.

[18] Bañas v. Asia Pacific Finance Corporation, *supra*.

[19] *Id.*, p. 537, per Bellosillo, J.

[20] Spouses Uy v. Court of Appeals, *supra*.

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