SPOUSES QUIRINO V. DELA CRUZ AND GLORIA DELA CRUZ, PETITIONERS, VS. PLANTERS PRODUCTS, INC., RESPONDENT.

G.R. No. 158649. February 18, 2013

Ponente: BERSAMIN, J.

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BERSAMIN, J.:

If the terms of a contract are clear and leave no doubt upon the intention of the contracting parties, the literal meaning of its stipulations shall control.[1] In determining their intention, their contemporaneous and subsequent acts shall be principally considered.[2]

Under review on certiorari are the Decision promulgated on April 11, 2003 in C.A.-G.R. No. CV No. 57446,[3] whereby the Court of Appeals (CA) affirmed the judgment rendered on October 29, 1997 by the Regional Trial Court, Branch 66, (RTC) in Makati City (ordering the petitioners liable to pay the respondent the amount of P240,335.10 plus 16% interest per annum commencing from July 9, 1985 until full payment, and the sum of P20,000.00 as attorney's fees and cost of litigation);[4] and the resolution promulgated on June 9, 2003, whereby the CA denied the motion for reconsideration of the petitioners.[5]

Antecedents

Spouses Quirino V. Dela Cruz and Gloria Dela Cruz, petitioners herein, operated the Barangay Agricultural Supply, an agricultural supply store in Aliaga, Nueva Ecija engaged in the distribution and sale of fertilizers and agricultural chemical products, among others. At the time material to the case, Quirino, a lawyer, was the Municipal Mayor of Aliaga, Nueva Ecija.[6]

On March 23, 1978, Gloria applied for and was granted by respondent Planters Products, Inc. (PPI) a regular credit line of P200,000.00 for a 60-day term, with trust receipts as collaterals.[7] Quirino and Gloria submitted a list of their assets in support of her credit application for participation in the Special Credit Scheme (SCS) of PPI.[8] On August 28, 1978, Gloria signed in the presence of the PPI distribution officer/assistant sales representative two documents[9] labelled "Trust Receipt/Special Credit Scheme," indicating the invoice number, quantity, value, and names of the agricultural inputs (i.e., fertilizer or agricultural chemicals) she received "upon the trust" of PPI. Gloria thereby subscribed to specific undertakings, as follows:

> For and in consideration thereof, I/We hereby agree to hold said goods in trust for PPI, as its property, with liberty to deliver and sell the same for PPI's account, in favor of farmers accepted to participate in PPI's Special Credit Scheme within 60 days from receipt of inputs from PPI. In case of such delivery and sale, I/We agree to require the execution of a Trust Agreement by the farmer-participants in my/our favor, which Agreement will in turn be Assigned by me/us in favor of PPI with Recourse. In the event, I/We cannot deliver/serve to the farmer-participants all the inputs as enumerated above within 60 days, then I/We agree that the undelivered inputs will be charged to my/our credit line, in which case, the corresponding adjustment of price and interests shall be made by PPI.[10]

Gloria expressly agreed to: (a) "supervise the collection of the equivalent number of cavanes of palay and/or corn

from the farmer-participant" and to "turn over the proceeds of the sale of the deposited palay and corn as soon as received, to PPI to be applied against the listed invoices"; (b) "keep said fertilizer and pesticides insured at their full value against fire and other casualties prior to delivery to farmer-participants, the sum insured to be payable in case of loss to PPI, with the understanding that PPI is not to be chargeable with the storage, insurance premium, or any other expenses incurred on said goods"; (c) "keep the said fertilizer and pesticides, prior to delivery to the farmer-participants, separate and capable of identification as the property of PPI inside my/our warehouse"; and (d) "require the farmer-participants to deposit the palay or corn sufficient to cover their respective accounts within 72 hours after the harvest of the farmer-participants" and should the farmer-participants refuse to make the required deposit, Gloria would notify PPI thereof within 24 hours. For that purpose, negligence on her part would make her obligation under the Trust Receipt "direct and primary."[11]

Gloria further expressly agreed that her obligation as stipulated in the contract would "continue in force and be applicable to all transactions, notwithstanding any change in the individuals composing any firm, parties to or concerned x x x whether such change shall arise from accession of one or more new partners or from the death or cession of any partner or partners;" that her "liability for payment at maturity of the invoice(s) x x x shall not be extinguished or modified" by the following, namely: (a) "any priority, act of war, or restriction on the use, transportation, hypothecation, or disposal thereof imposed by any administrative, political or legislative enactments, regulations or orders whatsoever"; (b) "government appropriation of the same, or of any seizure or destruction thereof or damage thereto, whether insured against or not"; and (c) "any acts or regulation affecting this Trust Receipt or the inputs subject thereto."[12]

In addition, Gloria's obligation included the following terms and conditions, to wit:

> All obligations of the undersigned under this Trust Receipt shall bear interest at the rate of twelve per cent (12%) per annum plus two percent (2%) service charges, reckoned from the date Dealer delivers to farmer-participants the fertilizer and agchem products. Where I/We have not delivered within 60 days, interest and service charges shall become effective on the 61[st] day.
>
> If there are two or more signatories, our obligations hereunder shall in all cases be joint and several.
>
> All expenses and charges incurred by PPI in re-possession of said fertilizer and agchem products, and in securing delivery of the same to a bodega or storage place in Manila or at some other place selected by it shall be for my/our account and shall be repaid to PPI by me/us.
>
> Should it become necessary for PPI to avail of the services of an attorney-at-law to initiate legal steps to enforce any or all of its rights under this contract, we jointly and severally, shall pay to PPI for and as attorney's fees a sum equivalent to twenty per cent (20%) per annum of the total amount involved, principal and interest, then unpaid, but in no case less than FIVE HUNDRED PESOS (P500.00), exclusive of all costs or fees allowed by law.
>
> In consideration of PPI complying with the foregoing we jointly and severally agree and undertake to pay on demand to PPI all sums of money which PPI may call upon us to pay arising out of or pertaining to and/or in any event connected with the default of and/or non-fulfillment in any respect of the undertaking of the aforesaid.[13]

Gloria executed three more documents on September 14, 1978,[14] and one document each on September 28, 1978,[15] September 18, 1978,[16] and September 20, 1978.[17] On the corresponding dates, Gloria filled up customer order forms for fertilizer and agricultural chemical products.[18] Written at the upper portion of each order form was the following:

> This invoice is subject to the terms and conditions stipulated in our contract. Under no circumstance is this

> invoice to be used as a receipt for payment. Interest at 14% per annum plus service and handling charges at the rate of 10% per annum shall be charged on all overdue accounts, and in the event of judicial proceedings to enforce collection, customer shall pay the Company an amount equivalent to 25% of the amount due for and as attorney's fees which in no case shall be less than P200 in addition to cost of suit.

The products were released to Gloria under the supervision of Cristina G. Llanera of PPI.

The 60-day credit term lapsed without Gloria paying her obligation under the Trust Receipt/SCS. Hence, PPI wrote collection letters to her on April 24, 1979 and May 22, 1979. Receiving no response from her, Inocencio E. Ortega, PPI District Distribution Manager, sent her on June 8, 1979 a demand letter on her "long overdue account" of P191,205,25.[19]

On February 24, 1979, PPI sent Gloria a credit note for P127,930.60 with these particulars: "To transfer to dealer's regular line inputs withdrawn VS. SCS line still undelivered to farmers after 60 days."[20] Another credit note, also dated February 24, 1979 and with the same particulars, indicated the amount of P46,622.80.[21]

The follow-up letter of October 11, 1979 culminated in the final demand letter of May 30, 1980 from Atty. R. M. Rivera, PPI Collection Officer,[22] stating that the total accountability of Gloria as of April 25, 1980 was P156,755.00 "plus interest, service charges, and penalty charges," all of which she should pay by June 18, 1980. PPI warned that should she fail to do so, PPI would file the "necessary civil and criminal cases" against her "based on the Trust Receipts."

On November 17, 1981, PPI brought against Quirino and Gloria in the erstwhile Court of First Instance in Pasig, Metro Manila a complaint for the recovery of a sum of money with prayer for a writ of preliminary attachment.[23] PPI alleged that Gloria had violated the "fiduciary undertaking in the Trust Receipt agreement covering product withdrawals under the Special Credit Scheme which were subsequently charged to defendant dealer's regular credit line; therefore, she is guilty of fraudulently misapplying or converting to her own use the items delivered to her as contained in the invoices." It charged that Gloria did not return the goods indicated in the invoices and did not remit the proceeds of sales.

PPI prayed for judgment holding the petitioners liable for the principal amount of P161,203.60 as of October 25, 1981, "inclusive of interest and service charges"; additional "daily interest of P80.60 from October 26, 1981 until fully paid"; and 20% of the total amount due as attorney's fees. As of July 9, 1985, the statement of account showed a grand total liability of P240,355.10.[24]

In her answer, the petitioners alleged that Gloria was only a marketing outlet of PPI under its SCS Program, not a dealer primarily obligated to PPI for the products delivered to her; that she had not collected from the farmers participating in the SCS Program because of the October 27-28, 1979 typhoon Kading that had destroyed the participating farmers' crops; and that she had paid P50,000.00 to PPI despite the failure of the farmers to pay.[25]

Decision of the RTC

On October 29, 1997, the trial court, then already the RTC, rendered its judgment ordering the petitioners "to pay the plaintiff the amount of P240,335.10 plus 16% interest per annum commencing from July 9, 1985 until fully paid and the sum of P20,000.00 as attorney's fees and cost of litigation."[26]

The RTC found that based on the terms and conditions of the SCS Program, a creditor-debtor relationship was created between Gloria and PPI; that her liability was predicated on Section 4 of the Trust Receipts Law (Presidential Decree No. 115) and on the ruling in Robles v. Court of Appeals[27] to the effect that the failure of the entrustee (Gloria) to turn over to the entruster (plaintiff) the proceeds of the sale of goods covered by the delivery trust receipts or to return the goods constituted estafa punishable under Article 315(1)(b) of the Revised

Penal Code; and that the petitioners could not use as a defense the occurrence of typhoon Kading because there was no privity of contract between the participating farmers and PPI.

Ruling of the CA

The petitioners appealed to the CA[28] upon the following assignment of errors, to wit:

> THE LOWER COURT ERRED IN HOLDING THAT DEFENDANT GLORIA DELA CRUZ WAS AN ACCREDITED DEALER UNDER THE SPECIAL CREDIT SCHEME AND PURCHASED ON CREDIT FERTILIZERS AND CHEMICALS FROM PLAINTIFF.
>
> THE TRIAL COURT ERRED IN HOLDING THAT DEFENDANTS ARE PRIMARILY LIABLE FOR THE FERTILIZERS AND CHEMICALS COVERED BY THE ORDER FORMS, DELIVERY RECEIPTS AND TRUST RECEIPTS.
>
> THE TRIAL COURT ERRED IN HOLDING THAT THE SPECIAL CREDIT SCHEME/LINE GRANTED TO DEFENDANT GLORIA DELA CRUZ WAS CONVERTED TO A REGULAR LINE.
>
> THE TRIAL COURT ERRED IN FINDING FOR THE PLAINTIFF AND NOT FOR THE DEFENDANTS-APPELLANTS.

On April 11, 2003, the CA affirmed the judgment of the RTC,[29] viz:

> WHEREFORE, premises considered, the instant appeal is hereby DENIED, and the impugned Decision dated 29 October 1997 of Regional Trial Court of Makati City, Branch 66 is hereby AFFIRMED in toto. Costs against Defendants-appellants.
>
> SO ORDERED.

The CA held the petitioners liable to PPI "for the value of the fertilizers and agricultural chemical products covered by the trust receipts" because a creditor-debtor relationship existed between the parties when, pursuant to the credit line of P200,000.00 and the SCS Program, the petitioners "withdrew several fertilizers and agricultural chemical products on credit;" that the petitioners then came under obligation to pay the equivalent value of the withdrawn goods, "or to return the undelivered and/or unused products within the specified period." It elucidated thus:

> The trust receipts covering the said fertilizers and agricultural chemical products under the special credit scheme, and signed by defendant-appellant Gloria de la Cruz specifically provides for their direct and primary liability over the same, to wit:
>
> "x x x. In the event, I/We cannot deliver/serve to the farmer-participants all the inputs as enumerated above within 60 days, then I/We agree that the undelivered inputs will be charged to my/our regular credit line, in which case, the corresponding adjustment of price and interest shall be made by PPI."

and in case of failure on the part of Defendants-appellants to liquidate within the specified period the undelivered or unused fertilizers and agricultural chemical products, its corresponding value will be charged to the regular credit line of Defendants-appellants, which was eventually done by Plaintiff-appellee, when it converted and/or credited Defendants-appellants' accounts payable under the special credit scheme to their regular credit line as per "credit notes."

Pursuant to said credit line account and trust receipts, plaintiff-appellee Planters Products, Inc. and defendants-appellants Spouses de la Cruz are bound to fulfill what has been expressly stipulated therein. It is well-settled in Barons Marketing Corporation v. Court of Appeals,[30] to wit:

> "It may not be amiss to state that petitioner's contract with private respondent has the force of law between

> them. Petitioner is thus bound to fulfill what has been expressly stipulated therein. In the absence of any abuse of right, private respondent cannot be allowed to perform its obligation under such contract in parts. Otherwise, private respondent's right under Article 1248 will be negated, the sanctity of its contract with petitioner defiled. The principle of autonomy of contracts must be respected." (Emphasis supplied)

Moreover, Defendants-appellants cannot pass their obligation to pay the equivalent value of the undelivered and/or unused fertilizers and agricultural chemical products under the trust receipts to the farmers-participants considering that the "contract" was between plaintiff-appellee Planters Products Inc. and defendants-appellants Quirino and Gloria Dela Cruz, and the farmers-participants were never privy to the said transaction."[31]

In their motion for reconsideration,[32] the petitioners mainly contended that the farmers as participants in the SCS, not Gloria, were liable because the inputs had been delivered to them; that such was the tenor of the demand letters they had sent to the farmers; that PPI would not have made a second delivery if it had not been satisfied that they (petitioners) had delivered the products to the farmers, who, however, had not paid their "loan" because of typhoon Kading destroying their crops; that in the aftermath of the typhoon, PPI representatives led by one Noel David had inspected the Municipality of Aliaga, and had forged an agreement with the petitioners whereby they bound themselves to help PPI "in collecting from the farmers in the succeeding palay crop their indebtedness;" and that PPI had subsequently made them the "principal debtor" notwithstanding that they had not incurred any account with PPI because all the transactions had been "on a cash on delivery basis or cash withdrawal basis."

On June 9, 2003, the CA denied the petitioners' motion for reconsideration.

Issues

Hence, the petitioners are now before the Court via their petition for review on certiorari.

The petitioners ascribe to the CA grave reversible error in affirming the decision of the RTC notwithstanding that the award to PPI of the amount of P240,335.10 plus 16% interest per annum was based on hearsay evidence, leaving absolutely no other evidence to support the award. They assail the award of attorney's fees for its lack of factual and legal bases; and insist that the CA did not consider "certain facts and circumstances on record which would otherwise justify a different decision."

Ruling
The appeal has no merit.

I.
Parties entered into a creditor-debtor relationship
The petitioners did not deny that Gloria applied with PPI for a credit line of P200,000.00; and that Gloria signed up for the SCS Program of PPI. The principal issue they now raise is whether the two transaction documents signed by Gloria expressed the intent of the parties to establish a creditor-debtor relationship between them. The resolution of the issue is necessary to resolve the corollary issue of whether the petitioners were liable to PPI for the value of the fertilizers and agricultural chemical products delivered to Gloria, and, if so, by how much.

It is apparent, however, that the petitioners are focusing on the evidentiary value of Exhibit V, the statement of account showing that Gloria was liable in the total amount of P240,355.10 as of July 9, 1985, and are in the process avoiding the pivotal issue concerning the nature of the contract between them and PPI. Nonetheless, the issue of liability sprang from the terms of the contractual documents Gloria had signed. For them to question the amount of their liabilities without explaining why they should not be held liable veritably constituted their tacit admission of the existence of the loan but assailing only how much they should repay to PPI.

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The petitioners aver that "in a surprising turn of events, when it appeared that no further collection could be had, [PPI] unilaterally and arbitrarily converted and charged its receivables from the farmers-participants against petitioner's regular credit line," and PPI thereafter sent the demand letters to Gloria.[33] Considering that the documents signed by Gloria governed the relationship between her and PPI, the controversy can be resolved only by an examination of the contractual documents.

As earlier mentioned, Gloria signed the application for credit facilities on March 23, 1978, indicating that a trust receipt would serve as collateral for the credit line. On August 4, 1978, Gloria, as "dealer," signed together with Quirino the list of their assets having a total value of P260,000.00 (consisting of a residential house and lot, 10-hectare agricultural lands in Aliaga and Talavera, and two residential lots) that they tendered to PPI "to support our credit application in connection with our participation to your Special Credit Scheme."[34] Gloria further signed the Trust Receipt/SCS documents defining her obligations under the agreement, and also the invoices pursuant to the agreement with PPI, indicating her having received PPI products on various dates.

These established circumstances comprised by the contemporaneous and subsequent acts of Gloria and Quirino that manifested their intention to enter into the creditor-debtor relationship with PPI show that the CA properly held the petitioners fully liable to PPI. The law of contracts provides that in determining the intention of the parties, their contemporaneous and subsequent acts shall be principally considered.[35] Consequently, the written terms of their contract with PPI, being clear upon the intention of the contracting parties, should be literally applied.[36]

The first circumstance was the credit line of P200,000.00 that commenced the business relationship between the parties. A credit line is really a loan agreement between the parties. According to Rosario Textile Mills Corporation v. Home Bankers Savings and Trust Co.:[37]

> x x x [A] credit line is "that amount of money or merchandise which a banker, a merchant, or supplier agrees to supply to a person on credit and generally agreed to in advance." It is a fixed limit of credit granted by a bank, retailer, or credit card issuer to a customer, to the full extent of which the latter may avail himself of his dealings with the former but which he must not exceed and is usually intended to cover a series of transactions in which case, when the customer's line of credit is nearly exhausted, he is expected to reduce his indebtedness by payments before making any further drawings.[38]

The second circumstance was the offer by Gloria of trust receipts as her collateral for securing the loans that PPI extended to her.[39] 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 through utilization, as collateral, of the merchandise imported or purchased."[40] It is a security agreement that "secures an indebtedness and there can be no such thing as security interest that secures no obligation."[41]

The third circumstance was the offer of Gloria and Quirino to have their conjugal real properties beef up the collaterals for the credit line. Gloria signed the list of the properties involved as "dealer," thereby ineluctably manifesting that Gloria considered herself a dealer of the products delivered by PPI under the credit line. In this connection, a dealer is "a person who makes a business of buying and selling goods, especially as distinguished from a manufacturer, without altering their condition." In other words, a dealer is "one who buys to sell again."[42]

The fourth circumstance had to do with the undertakings under the trust receipts. The position of the petitioners was that the farmers-participants alone were obligated to pay for the goods delivered to them by Gloria. However, such position had no factual and legal legs to prop it up. A close look at the Trust Receipt/SCS indicates that the

farmer-participants were mentioned therein only with respect to the duties and responsibilities that Gloria personally assumed to undertake in holding goods "in trust for PPI." Under the notion of relativity of contracts embodied in Article 1311 of the Civil Code, contracts take effect only between the parties, their assigns and heirs. Hence, the farmer-participants, not being themselves parties to the contractual documents signed by Gloria, were not to be thereby liable.

At this juncture, the Court clarifies that the contract, its label notwithstanding, was not a trust receipt transaction in legal contemplation or within the purview of the Trust Receipts Law (Presidential Decree No. 115) such that its breach would render Gloria criminally liable for estafa. Under Section 4 of the Trust Receipts Law, the sale of goods by a person in the business of selling goods for profit who, at the outset of the transaction, has, as against the buyer, general property rights in such goods, or who sells the goods to the buyer on credit, retaining title or other interest as security for the payment of the purchase price, does not constitute a trust receipt transaction and is outside the purview and coverage of the law, to wit:

> Section. 4. What constitutes a trust receipt transaction. – A trust receipt transaction, within the meaning of this Decree, is any transaction by and between a person referred to in this Decree as the entruster, and another person referred to in this Decree as the entrustee, whereby the entruster, who owns or holds absolute title or security interests over certain specified goods, documents or instruments, releases the same to the possession of the entrustee upon the latter's execution and delivery to the entruster of a signed document called a "trust receipt" wherein the entrustee binds himself to hold the designated goods, documents or instruments in trust for the entruster and to sell or otherwise dispose of the goods, documents or instruments with the obligation to turn over to the entruster the proceeds thereof to the extent of the amount owing to the entruster or as appears in the trust receipt or the goods, documents or instruments themselves if they are unsold or not otherwise disposed of, in accordance with the terms and conditions specified in the trust receipt, or for other purposes substantially equivalent to any of the following:
>
> 1. In the case of goods or documents, (a) to sell the goods or procure their sale; or (b) to manufacture or process the goods with the purpose of ultimate sale: Provided, That, in the case of goods delivered under trust receipt for the purpose of manufacturing or processing before its ultimate sale, the entruster shall retain its title over the goods whether in its original or processed form until the entrustee has complied fully with his obligation under the trust receipt; or (c) to load, unload, ship or tranship or otherwise deal with them in a manner preliminary or necessary to their sale; or
>
> 2. In case of instruments x x x.
>
> The sale of goods, documents or instruments by a person in the business of selling goods, documents or instruments for profit who, at the outset of the transaction, has, as against the buyer, general property rights in such goods, documents or instruments, or who sells the same to the buyer on credit, retaining title or other interest as security for the payment of the purchase price, does not constitute a trust receipt transaction and is outside the purview and coverage of this Decree. (Bold emphasis supplied.)

In Land Bank v. Perez,[43] the Court has elucidated on the coverage of Section 4, supra, to wit:

> There are two obligations in a trust receipt transaction. The first is covered by the provision that refers to money under the obligation to deliver it (entregarla) to the owner of the merchandise sold. The second is covered by the provision referring to merchandise received under the obligation to return it (devolverla) to the owner. Thus, under the Trust Receipts Law, intent to defraud is presumed when (1) the entrustee fails to turn over the proceeds of the sale of goods covered by the trust receipt to the entruster; or (2) when the entrustee fails to return the goods under trust, if they are not disposed of in accordance with the terms of the trust receipts.
>
> In all trust receipt transactions, both obligations on the part of the trustee exist in the alternative – the return of

> the proceeds of the sale or the return or recovery of the goods, whether raw or processed. When both parties enter into an agreement knowing that the return of the goods subject of the trust receipt is not possible even without any fault on the part of the trustee, it is not a trust receipt transaction penalized under Section 13 of P.D. 115; the only obligation actually agreed upon by the parties would be the return of the proceeds of the sale transaction. This transaction becomes a mere loan, where the borrower is obligated to pay the bank the amount spent for the purchase of the goods. (Bold emphasis supplied)

It is not amiss to point out that the RTC even erred in citing Section 4 of the Trust Receipts Law as its basis for ordering Gloria to pay the total amount of P240,355.10. Section 13 of the Trust Receipts Law considers the "failure of an entrustee to turn over the proceeds of the sale of the goods, documents or instruments covered by a trust receipt to the extent of the amount owing to the entruster or as appears in the trust receipt or to return said goods, documents or instruments if they were not sold or disposed of in accordance with the terms of the trust receipt" as constituting the crime of estafa under Article 315 (b) of the Revised Penal Code. However, had PPI intended to charge Gloria with estafa, it could have then done so. Instead, it brought this collection suit, a clear indication that the trust receipts were only collaterals for the credit line as agreed upon by the parties.

To be clear, the obligation assumed by Gloria under the Trust Receipt/SCS involved "the execution of a Trust Agreement by the farmer-participants" in her favor, which, in turn, she would assign "in favor of PPI with recourse" in case of delivery and sale to the farmer-participants. The term recourse as thus used means "resort to a person who is secondarily liable after the default of the person who is primarily liable."[44] An indorsement "with recourse" of a note, for instance, makes the indorser a general indorser, because the indorsement is without qualification. Accordingly, the term with recourse confirms the obligation of a general indorser, who has the same liability as the original obligor.[45] As the assignor "with recourse" of the Trust Agreement executed by the farmer participating in the SCS, therefore, Gloria made herself directly liable to PPI for the value of the inputs delivered to the farmer-participants. Obviously, the signature of the representative of PPI found in the demand letters Gloria sent to the farmer-participants only indicated that the Trust Agreement was part of the SCS of PPI.

The petitioners could not validly justify the non-compliance by Gloria with her obligations under the Trust Receipt/SCS by citing the loss of the farm outputs due to typhoon Kading. There is no question that she had expressly agreed that her liability would not be extinguished by the destruction or damage of the crops. The use of the term with recourse was, in fact, consonant with the provision of the Trust Receipt/SCS stating that if Gloria could not deliver or serve "all the inputs" to the farmer-participants within 60 days, she agreed that "the undelivered inputs will be charged" to her "regular credit line." Under her arrangement with PPI, the trust receipts were mere securities for the credit line granted by PPI,[46] having in fact indicated in her application for the credit line that the trust receipts were "collaterals" or separate obligations "attached to any other contract to guaranty its performance."[47]

It is worthwhile to note that the application for credit facilities was a form contract that Gloria filled out only with respect to her name, address, credit limit, term, and collateral. Her act of signing the application signified her agreement to be bound by the terms of the application, specifically her acquiescence to use trust receipts as collaterals, as well as by the terms and conditions of the Trust Receipt/SCS.

In this regard, whether or not the Trust Receipt/SCS was a contract of adhesion apparently prepared by PPI would neither dilute nor erase her liabilities. A contract of adhesion prepared by one party, usually a corporation, is generally not a one-sided document as long as the signatory is not prevented from studying it before signing. Gloria did not show that she was deprived of that opportunity to study the contract. At any rate, the social stature of the parties, the nature of the transaction, and the amount involved were also factors to be considered in determining whether the aggrieved party "exercised adequate care and diligence in studying the contract prior to

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its execution."[48] Thus, "[u]nless a contracting party cannot read or does not understand the language in which the agreement is written, he is presumed to know the import of his contract and is bound thereby."[49] Here, Gloria was married to a lawyer who was also then the Municipal Mayor of Aliaga. Both of them signed the list of conjugal assets that they used to support the application for the credit line.

The last circumstance was that the petitioners now focus on the amount of liabilities adjudged against them by the lower courts. They thereby bolster the finding that they fully knew and accepted the legal import of the documents Gloria had signed of rendering them personally liable towards PPI for the value of the inputs granted to the farmer-participants through them. The finding is further confirmed by her admission of paying to PPI the amount of P50,000.00, which payment, albeit allegedly made grudgingly, solidified the existence of a creditor-debtor relationship between them. Indeed, Gloria would not have paid that amount except in acknowledgement of an indebtedness towards PPI.

II.
Statement of account was not hearsay
The petitioners insist that they could not be held liable for the balance stated in Exhibit V due to such document being hearsay as a "mere statement of account."[50] They argue that Cristina Llanera, the witness of PPI on the matter, was only a warehouse assistant who was not shown to be either an accountant, or bookkeeper, or auditor or a person knowledgeable in accounting. They posit that Llanera's testimony on Exhibit V was limited to stating that she had prepared the statement of account contained therein; that she did not affirm the correctness or veracity of the contents of the document;[51] and that, consequently, Exhibit V had no evidentiary value as proof of their total liability for P240,355.10, the amount stated therein.

We do not agree with the petitioners.

With Exhibit V being a private document, authentication pursuant to the rules on evidence was a condition for its admissibility.[52] Llanera, admittedly the person who had prepared the document, was competent to testify on the due execution and authenticity of Exhibit V. Such authentication was done in accordance with Rule 132 of the Rules of Court, whose Section 20 states:

> Section 20. Proof of private document. – Before any private document offered as authentic is received in evidence, its due execution and authenticity must be proved either:
>
> (a) By anyone who saw the document executed or written; or
> (b) By evidence of the genuineness of the signature or handwriting of the maker.
>
> Any other private document need only be identified as that which it is claimed to be.

Further, the petitioners dispute the contents of Exhibit V by invoking Section 43, Rule 130 of the Rules of Court, to wit:

> Section 43. Entries in the course of business. – Entries made at, or near the time of the transactions to which they refer, by a person deceased, or unable to testify, who was in a position to know the facts therein stated, may be received as prima facie evidence, if such person made the entries in his professional capacity or in the performance of duty and in the ordinary or regular course of business.

The invocation of the rule is misplaced, however, because the rule speaks of a situation where the person who made the entries is dead or unable to testify, which was not the situation here. Regardless, we have to point out that entries made in the course of business enjoy the presumption of regularity.[53] If properly authenticated, the entries serve as evidence of the status of the account of the petitioners. In Land Bank v. Monet's Export and Manufacturing Corporation,[54] the Court has explained that such entries are accorded unusual reliability because

their regularity and continuity are calculated to discipline record keepers in the habit of precision; and that if the entries are financial, the records are routinely balanced and audited; hence, in actual experience, the whole of the business world function in reliance of such kind of records.

Nor have the petitioners proved that the entries contained in Exhibit V were incorrect and untruthful. They cannot be permitted to do so now at this stage of final appeal, especially after the lower courts found and accepted the statement of account contained therein to be properly authenticated and trustworthy. Indeed, the Court is in no position to review and overturn the lower courts' unanimous finding and acceptance without strong and valid reasons because they involved an issue of fact.[55]

III.
Interest of 16% per annum,
being usurious, must be reversed

The statement of account discloses that the interest rate was 14% per annum for the "SCS Account – from the invoice date to 7/09/85"; and that the interest rate was 16% per annum for the "Reg. Account – from 8/16/80 to 7/09/85." The petitioners assail the interest charged on the principal obligation as usurious.

The matter of interest, being a question of law, must have to dealt with and resolved.

In 1978, when Gloria and PPI entered into the credit line agreement, the Usury Law (Act No. 2655) was still in effect. Section 2 of the Usury Law prescribed an interest rate of 12% per annum on secured loans, while Section 1 provided that "[t]he rate of interest for the loan or forbearance of any money, goods, or credits and the rate allowed in judgments, in the absence of express contract as to such rate of interest, shall be six per centum per annum or such rate as may be prescribed by the Monetary Board of the Central Bank."

It is noted, of course, that the Usury Law allowed the parties in a loan agreement to exercise discretion on the interest rate to be charged. Once a judicial demand for payment has been made, however, Article 2212 of the Civil Code should apply, that is: "Interest due shall earn legal interest from the time it is judicially demanded, although the obligation may be silent upon this point."

The Central Bank circulars on interest rates granted to the parties leeway on the rate of interest agreed upon. In this regard, the Court has said:

> The Usury Law had been rendered legally ineffective by Resolution No. 224 dated 3 December 1982 of the Monetary Board of the Central Bank, and later by Central Bank Circular No. 905 which took effect on 1 January 1983. These circulars removed the ceiling on interest rates for secured and unsecured loans regardless of maturity. The effect of these circulars is to allow the parties to agree on any interest that may be charged on a loan. The virtual repeal of the Usury Law is within the range of judicial notice which courts are bound to take into account. Although interest rates are no longer subject to a ceiling, the lender does not have an unbridled license to impose increased interest rates. The lender and the borrower should agree on the imposed rate, and such imposed rate should be in writing.[56]

Accordingly, the interest rate agreed upon should not be "excessive, iniquitous, unconscionable and exorbitant;" otherwise, the Court may declare the rate illegal.[57]

Considering that the credit line agreement was entered into in 1978, the rate of interest was still governed by the Usury Law. The 16% per annum interest imposed by the RTC was erroneous, therefore, because the loan was secured by the Trust Receipt/SCS. In view of this, 12% per annum is the legal rate of interest that should apply, to be reckoned from the filing of the action. This rate accords with Eastern Shipping Lines, Inc. v. Court of Appeals,[58] whereby the Court has defined the following formula for the computation of legal interest for the

guidance of the Bench and the Bar, viz:

> TOTAL AMOUNT DUE = [principal – partial payments made] + [interest + interest on interest], where
>
> Interest = remaining balance x 12% per annum x no. of years from due date until date of sale to a third party (payment).
>
> Interest on interest = interest computed as of the filing of the complaint x no. of years until date of sale to a third party (payment).[59]

Relevantly, the likelihood of the aggregate interest charged exceeding the principal indebtedness is not remote. In Apo Fruits Corporation v. Land Bank of the Philippines,[60] a case involving just compensation for landholdings with legal interest, however, the Court has appropriately observed that the realization of such likelihood was not necessarily inequitable or unconscionable due to its resulting directly from the application of law and jurisprudence, to wit:

> That the legal interest due is now almost equivalent to the principal to be paid is not per se an inequitable or unconscionable situation, considering the length of time the interest has remained unpaid – almost twelve long years. From the perspective of interest income, twelve years would have been sufficient for the petitioners to double the principal, even if invested conservatively, had they been promptly paid the principal of the just compensation due them. Moreover, the interest, however enormous it may be, cannot be inequitable and unconscionable because it resulted directly from the application of law and jurisprudence – standards that have taken into account fairness and equity in setting the interest rates due for the use or forbearance of money.

That is true herein. Although this case was commenced in 1981, the decision of the trial court was rendered only in 1997, or more than 15 years ago. By appealing to the CA and then to this Court, the petitioners chose to prolong the final resolution of the case; hence, they cannot complain, but must bear the consequences to them of the application of the pertinent law and jurisprudence, no matter how unfavorable to them.

IV.
Attorney's fees to be deleted

In granting attorney's fees, the RTC merely relied on and adverted to PPI's allegation that the failure of the petitioners to comply with their obligations under the contracts had "compelled [them] to hire the services of a counsel for which it had agreed to an attorney's fee equivalent to 25% of the total amount recovered exclusive of appearance fee of P1,500.00" as its sole basis for holding the petitioners liable to pay P20,000.00 "as attorneys' fee and cost of litigation." In affirming the RTC thereon, the CA did not even mention or deal with the matter of attorney's fees in its own decision.

The award of attorney's fees is deleted because of the absence of any factual and legal justification being expressly stated by the CA as well as by the RTC. To start with, the Court has nothing to review if the CA did not tender in its decision any justification of why it was awarding attorney's fees. The award of attorney's fees must rest on a factual basis and legal justification stated in the body of the decision under review. Absent the statement of factual basis and legal justification, attorney's fees are to be disallowed.[61] In Abobon v. Abobon,[62] the Court has expounded on the requirement for factual basis and legal justification in order to warrant the grant of attorney's fees to the winning party, viz:

> As to attorney's fees, the general rule is that such fees cannot be recovered by a successful litigant as part of the damages to be assessed against the losing party because of the policy that no premium should be placed on the right to litigate. Indeed, prior to the effectivity of the present Civil Code, such fees could be recovered only when there was a stipulation to that effect. It was only under the present Civil Code that the right to collect attorney's fees in the cases mentioned in Article 2208 of the Civil Code came to be recognized. Such fees are

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now included in the concept of actual damages.

Even so, whenever attorney's fees are proper in a case, the decision rendered therein should still expressly state the factual basis and legal justification for granting them. Granting them in the dispositive portion of the judgment is not enough; a discussion of the factual basis and legal justification for them must be laid out in the body of the decision. Considering that the award of attorney's fees in favor of the respondents fell short of this requirement, the Court disallows the award for want of the factual and legal premises in the body of the decision. The requirement for express findings of fact and law has been set in order to bring the case within the exception and justify the award of the attorney's fees. Otherwise, the award is a conclusion without a premise, its basis being improperly left to speculation and conjecture.

The lack of any assignment of error upon the matter of attorney's fees is of no moment, for the award, being devoid of any legal and factual basis, can be corrected and removed as a matter of law.

Finally, the petitioners charge that the CA "failed to consider certain facts and circumstances on record which would otherwise justify a different decision." The "facts and circumstances" pertained to details relevant to the nature of the agreement of the petitioners, and to the amount of their liabilities. However, an examination reveals that the "facts and circumstances" do not warrant a conclusion that they were not debtors of PPI under the credit line agreement.

WHEREFORE, the Court AFFIRMS the Decision promulgated on April 11, 2003 by the Court of Appeals, subject to the MODIFICATIONS that: (a) the rate of interest is 12% per annum reckoned from the filing of the complaint until full payment; and (b) the award of attorney's fees is deleted.

The petitioners shall pay the costs of suit.

SO ORDERED.
Sereno, C.J., Leonardo-De Castro, Villarama, Jr., and Reyes, JJ., concur.

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[1] Article 1370, Civil Code.

[2] Article 1371, Civil Code.

[3] Rollo, pp. 45-52; penned by Associate Justice Andres B. Reyes, Jr. (later Presiding Justice), and concurred in by Associate Justice Eugenio S. Labitoria (retired) and Associate Justice Regalado E. Maambong (retired/deceased).

[4] Records, Volume I, pp. 413-416.

[5] Rollo, p. 92.

[6] Records, Volume I, p. 389.

[7] Exhibit A, records, Volume II, pp. 4-6.

[8] Exhibit B, id. at 7.

[9] Exhibit J and Exhibit K, id. at 18-19.

[10] Id.

[11] Id.

[12] Id.

[13] Id. (back pages but not numbered)

[14] Exhibit L, Exhibit M and Exhibit S, id. at 20-21, 23.

[15] Exhibit N, id. at 22.

[16] Exhibit T, id. at 24.

[17] Exhibit U, id. at 25.

[18] Exhibit C, Exhibit D, Exhibit E, Exhibit F, Exhibit G, Exhibit P, Exhibit Q and Exhibit R, id. at 8-15.

[19] Exhibit H, id. at 16.

[20] Exhibit W, id. at 27.

[21] Exhibit X, id. at 28.

[22] Exhibit I, id. at 17.

[23] Records, Volume I, pp. 1-5.

[24] Exhibit V.

[25] Records, Volume I, p. 415.

[26] Id. at 416.

[27] G.R. No. 59640, July 15, 1991, 199 SCRA 195.

[28] Records, Volume I, p. 417.

[29] Rollo, pp. 51-52.

[30] G.R. No. 126486, February 9, 1998, 286 SCRA 96, 106.

[31] Rollo, pp. 50-51.

[32] CA rollo, pp. 81-106.

[33] Rollo, p. 12.

[34] Exhibit B, records, Volume II, p. 7.

[35] Article 1371, Civil Code.

[36] Article 1370, Civil Code.

[37] G.R. No. 137232, June 29, 2005, 462 SCRA 88.

[38] Id. at 94.

[39] Exhibit A, records, Volume II, pp. 4-6.

[40] Rosario Textile Mills Corp. v. Home Bankers Savings and Trust Co., supra note 36, citing Samo v. People, Nos. L-17603-04, May 31, 1962, 5 SCRA 354, 356-357.

[41] Id., citing Vintola v. Insular Bank of Asia and America, No. L-73271, May 29, 1987, 150 SCRA 578, 583.

[42] Manila Trading & Supply Co. v. City of Manila, 105 Phil. 581, 586 (1959).

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[43] G.R. No. 166884, June 13, 2012, citing Colinares v. Court of Appeals, G.R. No. 90828, September 5, 2000, 339 SCRA 609, 619-620; Gonzalez v. Hongkong and Shanghai Banking Corporation, G.R. No. 164904, October 19, 2007, 537 SCRA 255, 272; Allied Banking Corporation v. Ordoñez, G.R. No. 82495, December 10, 1990, 192 SCRA 246, 254; Ching v. Secretary of Justice, G.R. No. 164317, February 6, 2006, 481 SCRA 609, 633.

[44] Metropol (Bacolod) Financing & Investment Corporation v. Sambok Motors Company, No. L-39641, February 28, 1983, 120 SCRA 864, 867, citing Ogden, The Law of Negotiable Instruments, p. 200, citing Industrial Bank and Trust Company v. Hesselberg, 195 S.W.(2d) 470.

[45] Id. at 868.

[46] See Rosario Textile Mills Corp. v. Home Bankers Savings and Trust Co., supra note 36, at 94-95.

[47] 7A Words and Phrases 142, citing Thomson-Houston Electric Co. v. Capitol Electric Co., 56 F. 849, 854.

[48] Panlilio v. Citibank, N.A., G.R. No. 156335, November 28, 2007, 539 SCRA 69, 92.

[49] Swift Foods, Inc. v. Mateo, Jr., G.R. No. 170486, September 12, 2011, 657 SCRA 394, 409.

[50] Rollo, p. 18.

[51] Id. at 19.

[52] Barayuga v. Adventist University of the Philippines, G.R. No. 168008, August 17, 2011, 655 SCRA 640, 657.

[53] Basay v. Hacienda Consolacion, G.R. No. 175532, April 19, 2010, 618 SCRA 422, 431.

[54] G.R. No. 184971, April 19, 2010, 618 SCRA 451, 458-459.

[55] Bangayan v. Rizal Commercial Banking Corporation, G.R. No. 149193, April 4, 2011, 647 SCRA 8, 27; Deheza-Inamarga v. Alano, G.R. No. 171321, December 18, 2008, 574 SCRA 651, 657.

[56] Solidbank Corporation v. Permanent Homes, Incorporated, G.R. No. 171925, July 23, 2010, 625 SCRA 275, 284 citing Philippine National Bank v. Spouses Encina, G.R. No. 174055, February 12, 2008, 544 SCRA 608, 618.

[57] Toledo v. Hyden, G.R. No. 172139, December 8, 2010, 637 SCRA 540, 547, citing Medel v. Court of Appeals, G.R. No. 131622, November 27, 1998, 299 SCRA 481, 489-490.

[58] G.R. No. 97412, July 12, 1994, 234 SCRA 78, 95-97.

[59] PCI Leasing and Finance, Inc. v. Trojan Metal Industries Incorporated, G.R. No. 176381, December 15, 2010, 638 SCRA 615, 629.

[60] G.R. No. 164195, October 12, 2010, 632 SCRA 727, 757-758.

[61] Lozano v. Ballesteros, G.R. No. 49470, April 8, 1991, 195 SCRA 681, 691; OMC Carriers, Inc. v. Nabua, G.R. No. 148974, July 2, 2010, 622 SCRA 624, 639.

[62] G.R. No. 155830, August 15, 2012.

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