

DEVELOPMENT BANK OF THE PHILIPPINES, PETITIONER, VS. FELIPE P. ARCILLA, JR., RESPONDENT.

G.R. NO. 161397. June 30, 2005

Ponente: CALLEJO, SR., J.

Read online (full-text search, related cases, audio case brief): <https://batas.org/library/g-r-no-161397/>

CALLEJO, SR., J.:

Atty. Felipe P. Arcilla, Jr. was employed by the Development Bank of the Philippines (DBP) in October 1981. About five or six months thereafter, he was assigned to the legal department, and thereafter, decided to avail of a loan under the Individual Housing Project (IHP) of the bank.[1] On September 12, 1983, DBP and Arcilla executed a Deed of Conditional Sale[2] over a parcel of land, as well as the house to be constructed thereon, for the price of P160,000.00. Arcilla borrowed the said amount from DBP for the purchase of the lot and the construction of a residential building thereon. He obliged himself to pay the loan in 25 years, with a monthly amortization of P1,417.91, with 9% interest per annum, to be deducted from his monthly salary.[3]

DBP obliged itself to transfer the title of the property upon the payment of the loan, including any increments thereof. It was also agreed therein that if Arcilla availed of optional retirement, he could elect to continue paying the loan, provided that the loan/amount would be converted into a regular real estate loan account with the prevailing interest assigned on real estate loans, payable within the remaining term of the loan account.[4]

Arcilla was notified of the periodic release of his loan.[5] During the period of July 1984 to December 31, 1986, the monthly amortizations for the said account were deducted from his monthly salary, for which he was issued receipts.[6]

The monthly amortization was increased to P1,468.92 in November 1984, and to P1,691.51 beginning January 1985. However, Arcilla opted to resign from the bank in December 1986. Conformably with the Deed of Conditional Sale, the bank informed him, on June 11, 1987, that the balance of his loan account with the bank had been converted to a regular housing loan, thus:

Amount converted to PH Loan

Interest Rate

Remaining

Term

Monthly

Amortization

P 155,218.79 - 1

9%

22 yrs. &
6 mos

P1,342.72

6,802.45 - 2

9%

21 yrs. &
10 mos.

59.41

24,342.91 - 3

9%

22 yrs.

212.07

Plus: MRI at PC. 41/thousand P1,614.20

76.41

P186,364.15 Total P1,690.61[7]

=====

On July 24, 1987, Arcilla signed three Promissory Notes[8] for the total amount of P186,364.15. He was also obliged to pay service charge and interests, as follows:

a.1 On the amount advanced or balance thereof that remains unpaid for 30 days* or less:

- i. Interest on advances at 7% p.a. over DBP's borrowing cost:
- ii. No 2% service charge
- iii. No 8% penalty charge

a.2 On the amount advanced or balance thereof that remains unpaid for more than 30 days:

- i. Interest on the advance at 7% p.a.]
over DBP's borrowing cost;]
- ii. One time 2% service charge]-- To be computed from
- iii. Interest on the service charge] the start of the 30-day
- iv. 8% penalty charge on the balances] period
of the advances and service charge.[9]

Arcilla also agreed to pay to DBP the following:

*Insurance Premiums - 30-day period to be computed from date of
advances

Other Advances - 30-day period to be computed from date of notification

b. Taxes

b.1 One time service charge 2% of the amount advanced

b.2 Interest and penalty charge Interest – 7% p.a. over borrowing cost

Penalty charge – 8% p.a. if unpaid after 30 days from date of advance

i. Interest of the advance at]

7% p.a. over DBP's]

borrowing costs;]-- To be computed from start

ii One time 2% service charge] of 30-day period

iii Interest on the service charge]

iv. 8% penalty charge on the]

balances of the advance and]

service charge.]

*Insurance Premiums - 30-day period to be computed from date of advances.

Other Advances - 30-day period to be computed from date of notification.

b. Tax

b.1 One time service charge 2% of the amount advanced

b.2 Interest and penalty charge Interest – 7% p.a. over borrowing cost

Penalty charge – 8% p.a. if unpaid after 30 days from date of advance

However, Arcilla also agreed to the reservation by the DBP of its right to increase (with notice to him) the “rate of interest on the loan, as well as all other fees and charges on loans and advances pursuant to such policy as it may adopt from time to time during the period of the loan; Provided, that the rate of interest on the loan shall be reduced by law or by the Monetary Board; Provided, further, that the adjustment in the rate of interest shall take effect on or after the effectivity of the increase or decrease in the maximum rate of interest.”[10]

Upon his request, DBP agreed to grant Arcilla an additional cash advance of P32,000.00. Thereafter, on May 23, 1984, a Supplement to the Conditional Sale Agreement was executed in which DBP and Arcilla agreed on the following terms of the loan:

Amount Interest Rate Per Annum Terms Amortization

P32,000.00 Nine (9%) per cent MRI 24 years P271.57

for P32,000.00 at P0.40/

1,000.00 12.80

P32,000.00 same to be consolidated with the (Est. P 284.37

original advance in accordance Amort.) =====

with Condition No. 8 hereof.[11]

The additional advance was, thus, consolidated to the outstanding balance of Arcilla's original advance, payable within the remaining term thereof at 9% per annum. However, he failed to pay his loan account, advances, penalty

charges and interests which, as of October 31, 1990, amounted to P241,940.93.[12] DBP rescinded the Deed of Conditional Sale by notarial act on November 27, 1990.[13] Nevertheless, it wrote Arcilla, on January 3, 1992, giving him until October 24, 1992, within which to repurchase the property upon full payment of the current appraisal or updated total, whichever is lesser; in case of failure to do so, the property would be advertised for bidding.[14] DBP reiterated the said offer on October 7, 1992.[15] Arcilla failed to respond. Consequently, the property was advertised for sale at public bidding on February 14, 1994.[16]

Arcilla filed a complaint against DBP with the Regional Trial Court (RTC) of Antipolo, Rizal, on February 21, 1994. He alleged that DBP failed to furnish him with the disclosure statement required by Republic Act (R.A.) No. 3765 and Central Bank (CB) Circular No. 158 prior to the execution of the deed of conditional sale and the conversion of his loan account with the bank into a regular housing loan account. Despite this, DBP immediately deducted the account from his salary as early as 1984. Moreover, the bank applied its own formula and imposed its usurious interests, penalties and charges on his loan account and advances. He further alleged, thus:

13. That when plaintiff could no longer cope-up with defendant's illegal and usurious impositions, the DBP unilaterally increased further the rate of interest, without notice to the latter, and heaped-up usurious interests, penalties and charges;

...

14. That to further bend the back of the plaintiff, defendant rescinded the subject deed of conditional sale on 4 December 1990 without giving due notice to plaintiff;

15. That much later, on 10 October 1993, plaintiff received a letter from defendant dated 19 September 1993, informing plaintiff that the subject deed of conditional sale was already rescinded on 4 December 1990 (xerox copy of the same is hereto attached and made an integral part hereof as Annex "C");[17]

In its answer to the complaint, the DBP alleged that it substantially complied with R.A. No. 3765 and CB Circular No. 158 because the details required in said statements were particularly disclosed in the promissory notes, deed of conditional sale and the required notices sent to Arcilla. In any event, its failure to comply strictly with R.A. No. 3765 did not affect the validity and enforceability of the subject contracts or transactions. DBP interposed a counterclaim for the possession of the property.

On April 27, 2001, the trial court rendered judgment in favor of Arcilla and nullified the notarial rescission of the deeds executed by the parties. The fallo of the decision reads:

WHEREFORE, premises considered, judgment is hereby rendered in favor of the plaintiff and against the defendant. Defendant is hereby directed to furnish the disclosure statement to the plaintiff within five (5) days upon receipt hereof in the manner and form provided by R.A. No. 3765 and submit to this Court for approval the total obligation of the plaintiff as of this date, within ten (10) days from receipt of this order. The Notarial Rescission (Exh. "16") dated November 27, 1990 is hereby declared null and void. Costs against the defendant.

SO ORDERED.[18]

DBP appealed the decision to the Court of Appeals (CA) wherein it made the following assignment of errors:

- 4.1. The trial court erred in ruling that the provision of the details of the loan without the issuance of a "Disclosure Statement" is not compliance with the "Truth in Lending Act;"
- 4.2. The trial court erred in declaring the Notarial Rescission null and void; and
- 4.3. The trial court erred in denying DBP's counterclaims for recovery of possession, back rentals and

litigation expenses.[19]

On May 29, 2003, the CA rendered judgment setting aside and reversing the decision of the RTC. In ordering the dismissal of the complaint, the appellate court ruled that DBP substantially complied with R.A. No. 3765 and CB Circular No. 158. Arcilla filed a motion for reconsideration of the decision. For its part, DBP filed a motion for partial reconsideration of the decision, praying that Arcilla be ordered to vacate the property. However, the appellate court denied both motions.

The parties filed separate petitions for review on certiorari with this Court. The first petition, entitled *Development Bank of the Philippines v. Court of Appeals*, was docketed as G.R. No. 161397; the second petition, entitled *Felipe Arcilla, Jr. v. Court of Appeals*, was docketed as G.R. No. 161426. The Court resolved to consolidate the two cases.

The issues raised in the two petitions are the following: a) whether or not petitioner DBP complied with the disclosure requirement of R.A. No. 3765 and CB Circular No. 158, Series of 1978, in the execution of the deed of conditional sale, the supplemental deed of conditional sale, as well as the promissory notes; and b) whether or not respondent Felipe Arcilla, Jr. is mandated to vacate the property and pay rentals for his occupation thereof after the notarial rescission of the deed of conditional sale was rescinded by notarial act, as well as the supplement executed by DBP.

On the first issue, Arcilla avers that under R.A. No. 3765 and CB Circular No. 158, the DBP, as the creditor bank, was mandated to furnish him with the requisite information in such form prescribed by the Central Bank before the commutation of the loan transaction. He avers that the disclosure of the details of the loan contained in the deed of conditional sale and the supplement thereto, the promissory notes and release sheet, do not constitute substantial compliance with the law and the CB Circular. He avers that the required disclosure did not include the following:

... [T]he percentage of Finance Charges to Total Amount Financed (Computed in accordance with Sec. 2(i) of CB Circular 158; the Additional Charges in case certain stipulations in the contract are not met by the debtor; Total Non-Finance Charges; Total Finance Charges, Effective Interest Rate, etc. ...[20]

Arcilla further posits that the failure of DBP to comply with its obligation under R.A. No. 3765 and CB Circular No. 158 forecloses its right to rescind the transaction between them, and to demand compliance of his obligation arising from said transaction. Moreover, the bank had no right to deduct the monthly amortizations from his salary without first complying with the mandate of R.A. No. 3765.

DBP, on the other hand, avers that all the information required by R.A. No. 3765 was already contained in the loan transaction documents. It posits that even if it failed to comply strictly with the disclosure requirement of R.A. No. 3765, nevertheless, under Section 6(b) of the law, the validity and enforceability of any action or transaction is not affected. It asserts that Arcilla was estopped from invoking R.A. No. 3765 because he failed to demand compliance with R.A. No. 3765 from the bank before the consummation of the loan transaction, until the time his complaint was filed with the trial court.

In its petition in G.R. No. 161397, DBP asserts that the RTC erred in not rendering judgment on its counterclaim for the possession of the subject property, and the liability of Arcilla for rentals while in the possession of the property after the notarial rescission of the deeds of conditional sale. For his part, Arcilla (in G.R. No. 161426) insists that the respondent failed to comply with its obligation under R.A. No. 3765; hence, the notarial rescission of the deed of conditional sale and the supplement thereof was null and void. Until DBP complies with its obligation, he is not obliged to comply with his.

The petition of Arcilla has no merit.

Section 1 of R.A. No. 3765 provides that prior to the consummation of a loan transaction, the bank, as creditor, is obliged to furnish a client with a clear statement, in writing, setting forth, to the extent applicable and in accordance with the rules and regulations prescribed by the Monetary Board of the Central Bank of the Philippines, the following information:

- (1) the cash price or delivered price of the property or service to be acquired;
- (2) the amounts, if any, to be credited as down payment and/or trade-in;
- (3) the difference between the amounts set forth under clauses (1) and (2);
- (4) the charges, individually itemized, which are paid or to be paid by such person in connection with the transaction but which are not incident to the extension of credit;
- (5) the total amount to be financed;
- (6) the finance charges expressed in terms of pesos and centavos; and
- (7) the percentage that the finance charge bears to the total amount to be financed expressed as a simple annual rate on the outstanding unpaid balance of the obligation.

Under Circular No. 158 of the Central Bank, the information required by R.A. No. 3765 shall be included in the contract covering the credit transaction or any other document to be acknowledged and signed by the debtor, thus:

The contract covering the credit transaction, or any other document to be acknowledged and signed by the debtor, shall indicate the above seven items of information. In addition, the contract or document shall specify additional charges, if any, which will be collected in case certain stipulations in the contract are not met by the debtor.

Furthermore, the contract or document shall specify additional charges, if any, which will be collected in case certain stipulations in the contract are not met by the debtor.[21]

If the borrower is not duly informed of the data required by the law prior to the consummation of the availment or drawdown, the lender will have no right to collect such charge or increases thereof, even if stipulated in the promissory note.[22] However, such failure shall not affect the validity or enforceability of any contract or transaction.[23]

In the present case, DBP failed to disclose the requisite information in the disclosure statement form authorized by the Central Bank, but did so in the loan transaction documents between it and Arcilla. There is no evidence on record that DBP sought to collect or collected any interest, penalty or other charges, from Arcilla other than those disclosed in the said deeds/documents.

The Court is convinced that Arcilla's claim of not having been furnished the data/information required by R.A. No. 3765 and CB Circular No. 158 was but an afterthought. Despite the notarial rescission of the conditional sale in 1990, and DBP's subsequent repeated offers to repurchase the property, the latter maintained his silence. Arcilla filed his complaint only on February 21, 1994, or four years after the said notarial rescission. The Court finds and so holds that the following findings and ratiocinations of the CA are correct:

After a careful perusal of the records, We find that the appellee had been sufficiently informed of the terms and the requisite charges necessarily included in the subject loan. It must be stressed that the Truth in Lending Act (R.A. No. 3765), was enacted primarily "to protect its citizens from a lack of awareness of the true cost of credit to the user

by using a full disclosure of such cost with a view of preventing the uninformed use of credit to the detriment of the national economy" (Emata vs. Intermediate Appellate Court, 174, SCRA 464 [1989]; Sec. 2, R.A. No. 3765). Contrary to appellee's claim that he was not sufficiently informed of the details of the loan, the records

disclose that the required informations were readily available in the three (3) promissory notes he executed. Precisely, the said promissory notes were executed to apprise appellee of the remaining balance on his loan when the same was converted into a regular housing loan. And on its face, the promissory notes signed by no less than the appellee readily shows all the data required by the Truth in Lending Act (R.A. No. 3765).

Apropos, We agree with the appellant that appellee, a lawyer, would not be so gullible or negligent as to sign documents without knowing fully well the legal implications and consequences of his actions, and that appellee was a former employee of appellant. As such employee, he is as well presumed knowledgeable with matters relating to appellant's business and fully cognizant of the terms of the loan he applied for, including the charges that had to be paid.

It might have been different if the borrower was, say, an ordinary employee eager to buy his first house and is easily lured into accepting onerous terms so long as the same is payable on installments. In such cases, the Court would be disposed to be stricter in the application of the Truth in Lending Act, insisting that the borrower be fully informed of what he is entering into. But in the case at bar, considering appellee's education and training, We must hold, in the light of the evidence at hand, that he was duly informed of the necessary charges and fully understood their implications and effects. Consequently, the trial court's annulment of the rescission anchored on this ground was unjustified.[24]

Anent the prayer of DBP to order Arcilla to vacate the property and pay rentals therefor from 1990, a review of the records has shown that it failed to adduce evidence on the reasonable amount of rentals for Arcilla's occupancy of the property. Hence, the Court orders a remand of the case to the court of origin, for the parties to adduce their respective evidence on the bank's counterclaim.

IN LIGHT OF ALL THE FOREGOING, the petition in G.R. No. 161426 is DENIED for lack of merit. The petition in G.R. No. 161397 is PARTIALLY GRANTED. The case is hereby REMANDED to the Regional Trial Court of Antipolo, Rizal, Branch 73, for it to resolve the counterclaim of the Development Bank of the Philippines for possession of the property, and for the reasonable rentals for Felipe P. Arcilla, Jr.'s occupancy thereof after the notarial rescission of the Deed of Conditional Sale in 1990.

Costs against petitioner Felipe P. Arcilla, Jr.

SO ORDERED.

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

[1] TSN, 10 September 1996, p. 4; TSN, 21 November 1995, p. 10.

[2] Exhibit "D," Folder of Exhibits.

[3] Exhibit "D-2," Id.

[4] Exhibit "7-A" & Exhibit "D-1," Id.

[5] Exhibits "1" to "6," Id.

[6] Exhibits "F" to "F-27," Id.

[7] Exhibit "G," Folder of Exhibits.

[8] Exhibits "A," "B" and "C"

[9] Ibid.

[10] Exhibits “A,” “B,” and “C.”

[11] Exhibit “8,” Folder of Exhibits.

[12] Exhibits “H” and “16,” Id.

[13] Exhibits “H,” “16” and “16-A,” Id.

[14] Exhibit “18,” Id.

[15] Exhibit “17,” Id.

[16] Exhibit “I,” Id.

[17] Records, p. 7.

[18] Records, p. 202.

[19] CA Rollo, p. 16.

[20] Rollo, p. 14. (G.R. No. 161426)

[21] Central Bank Circular No. 158 defines the details mentioned in Section 1 of R.A. No. 3765, thus:

(c) “Cash price or delivered price,” in case of trade transactions, is the amount of money which would constitute full payment upon delivery of the property (except money) or service purchased at the creditor’s place of business. In the case of financial transactions, cash price represents the amount of money received by the debtor upon consummation of the credit transaction, net of finance charges collected at the time the credit is extended (if any).

(d) “Down Payment” represents the amount paid by the debtor at the time of the transaction in partial payment for the property or service purchased.

(e) “Trade-in” represents the value of an asset, agreed upon by the creditor and debtor, given at the time of the transaction in partial payment for the property or service purchased.

(f) “Non-finance charges” correspond to the amounts advanced by the creditor for items normally associated with the ownership of the property or of the availment of the service purchased which are not incident to the extension of credit. For example, in the case of the purchase of an automobile on credit, the creditor may advance the insurance premium as well as the registration fee for the account of the debtor.

(g) “Amount to be financed” consists of the cash price plus non-finance charges less the amount of the down payment and value of the trade-in.

(h) “Finance charge” represents the amount to be paid by the debtor incident to the extension of credit such as interest or discounts, collection fees, credit investigation fees, attorney’s fees, and other service charges. The total finance charge represents the difference between (1) the aggregate consideration (down payment plus installments) on the part of the debtor, and (2) the sum of the cash price and non-finance charges.

(i) “Simple annual rate” is the uniform percentage which represents the ratio, on an annual basis, between the finance charges and the amount to be financed.

In the case of a single payment upon maturity, the simple annual rate in per cent is determined by the following method:

(amount to be financed) (12)

$$R = \frac{\text{finance charge}}{\text{maturity period in months}} \times 100\%$$

(finance charge) (maturity period in months)

In case of the normal installment type of credit of at least one year in duration, where installment payments of equal amounts are made in regular time periods spaced not more than one year apart, the simple annual rate (R), in per cent, is computed by the following method:

(finance charge) (number of payments in a year)

$$R = 2 \times \frac{\text{finance charge}}{\text{amount to be financed} \times \frac{\text{total number of payments plus one}}{\text{number of payments in a year}}} \times 100\%$$

(amount to be financed) (total number of payments plus one)

In cases where the credit matures in less than one year (e.g., installment payments are required every month for six months), the same formula will apply except that: the number of payments in a year would refer to the number of installment periods, as defined in the credit contract, if the credit matures in one year. For example, the number of payments a year would be twelve for this purpose in cases where six monthly installment payments are called for in the credit transaction.

In cases where credit terms provide for premium or penalty charges depending on, say: the timeliness of the debtor's payments, the annual rate to be disclosed in writing shall be the rate for regular payments, i.e., the premium and penalty need not be taken into account in the determination of the annual rate. Such premium or penalty charges shall, however, be indicated in the credit contract.

[22] *New Sampaguita Builders Construction, Inc. v. PNB*, G.R. No. 148753, 30 July 2004, 435 SCRA 565.

[23] Section 6, Republic Act No. 3765.

[24] *Rollo*, pp. 41-42. (G.R. No. 161397)

ABOUT BATAS.ORG

Study smarter at BATAS.org

The Philippine bar review and law-school companion built around how your brain actually remembers.

The complete Philippine law library - free for everyone.

More than 100,000 Supreme Court decisions, Republic Acts, and executive issuances - full-text searchable, browsable by category and year, and always free. No paywall, no login. This PDF came from it.

Audio case-brief lectures.

Any decision becomes a podcast-style lecture - facts, issues, ruling, and doctrine - with read-along highlighting and a hands-free presentation mode. Study while commuting, working out, or resting your eyes.

Bar review built on the science of memory.

Complete, sequenced courses for all eight bar subjects, narrated like podcasts and reinforced with retrieval practice and spaced review - the study techniques with the strongest evidence behind them.

The full law-school curriculum.

One subscription unlocks the entire J.D. curriculum - every subject, every lesson, with your progress tracked down to the paragraph so you can pick up exactly where you left off, on any device.

Mock exams that tell you where you stand.

Timed multiple-choice exams graded instantly, with per-subject score breakdowns and focus suggestions that point you at your weakest topics first.

A study planner that keeps you on pace.

Set your schedule and BATAS tells you every day whether you are on track for bar day - and exactly which lesson to take next.

Start free at <https://batas.org>

The law library is free forever - and your first lesson is one click away.

The text of this document is an official public record and remains in the public domain. Formatting, presentation, and compilation © 2026 batas.org.

Downloaded free from the batas.org Law Library. Share it freely - the library is free for every law student, bar reviewee, and practitioner.