

LAZARO PASCO AND LAURO PASCO, PETITIONERS, VS. HEIRS OF FILOMENA DE GUZMAN, REPRESENTED BY CRESENCIA DE GUZMAN- PRINCIPE, RESPONDENTS.

G.R. No. 165554. July 26, 2010

Ponente: DEL CASTILLO, J.

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DEL CASTILLO, J.:

No court should shield a party from compliance with valid obligations based on wholly unsubstantiated claims of mistake or fraud. Having refused to abide by a compromise agreement, the aggrieved party may either enforce it or regard it as rescinded and insist upon the original demand.

This Petition for Review on Certiorari[1] assails the May 13, 2004 Decision[2] of the Court of Appeals (CA) and its October 5, 2004 Resolution[3] in CA-G.R. SP No. 81464 which dismissed petitioners' appeal and affirmed the validity of the parties' Compromise Agreement.

Factual Antecedents

The present petition began with a Complaint for Sum of Money and Damages[4] filed on December 13, 2000 by respondents, the heirs of Filomena de Guzman (Filomena), represented by Cresencia de Guzman-Principe (Cresencia), against petitioners Lauro Pasco (Lauro) and Lazaro Pasco (Lazaro). The case was filed before the Municipal Trial Court (MTC) of Bocaue, Bulacan, and docketed as Civil Case No. MM-3191.[5]

In their Complaint,[6] herein respondents alleged that on February 7, 1997, petitioners obtained a loan in the amount of P140,000.00 from Filomena (now deceased). To secure the petitioners' loan, Lauro executed a chattel mortgage on his Isuzu Jeep in favor of Filomena. Upon her death, her heirs sought to collect from the petitioners, to no avail. Despite numerous demands, petitioners refused to either pay the balance of the loan or surrender the Isuzu Jeep to the respondents. Thus, respondents were constrained to file the collection case to compel the petitioners to pay the principal amount of P140,000.00 plus damages in the amount of 5% monthly interest from February 7, 1997, 25% attorney's fees, exemplary damages, and expenses of litigation.

Filomena's heirs, consisting of Avelina de Guzman-Cumplido, Cecilia de Guzman, Rosita de Guzman, Natividad de Guzman, and Cresencia de Guzman-Principe, authorized Cresencia to act as their attorney-in-fact through a Special Power of Attorney[7] (SPA) dated April 6, 1999. The SPA authorized Cresencia to do the following on behalf of the co-heirs:

- 1) To represent us on all matters concerning the intestate estate of our deceased sister, Filomena de Guzman;
- 2) To file cases for collection of all accounts due said Filomena de Guzman or her estate, including the power to file petition for foreclosure of mortgaged properties;
- 3) To do and perform all other acts necessary to carry out the powers hereinabove conferred.

During the pre-trial of the case on February 15, 2002, the parties verbally agreed to settle the case. On February

21, 2002, the parties jointly filed a Compromise Agreement[8] that was signed by the parties and their respective counsel. Said Compromise Agreement, approved by the MTC in an Order[9] dated April 4, 2002, contained the following salient provisions:

1. That [petitioners] admit their principal loan and obligation to the [respondents] in the sum of One Hundred Forty Thousand Pesos (P140,000.00) Philippine currency; in addition to the incidental and other miscellaneous expenses that they have incurred in the pursuit of this case, in the further sum of P18,700.00;

2. That, [petitioners] undertake to pay to the [respondents] their aforementioned obligations, together with attorney's fees equivalent to ten percentum (10%) of the total sum thereof, directly at the BULACAN OFFICE of the [respondents'] counsel, located at No. 24 Hornbill Street, St. Francis Subdivision, Bo. Pandayan, Meycauayan, Bulacan, WITHOUT NEED OF FURTHER DEMAND in the following specific manner, to wit:

P60,000.00 - to be paid on or before May 15, 2002

P10,000.00 - monthly payments thereafter, starting June 15, 2002 up to and until the aforementioned obligations shall have been fully paid;

3. That, provided that [petitioners] shall truly [sic] comply with the foregoing specifically agreed manner of payments, [respondents] shall forego and waive all the interests charges of 5% monthly from February 7, 1998 and the 25% attorney's fees provided for in Annex "AA" of the Complaint;

4. In the event of failure on the part of the [petitioners] to comply with any of the specific provisions of this Compromise Agreement, the [respondents] shall be entitled to the issuance of a "Writ of Execution" to enforce the satisfaction of [petitioners'] obligations, as mentioned in paragraph 1, together with the 5% monthly interests charges and attorney's fees mentioned in paragraph 3 thereof.[10]

Ruling of the Municipal Trial Court

Unfortunately, this was not the end of litigation. On May 2, 2002, petitioners filed a verified Motion to Set Aside Decision[11] alleging that the Agreement was written in a language not understood by them, and the terms and conditions thereof were not fully explained to them. Petitioners further questioned the MTC's jurisdiction, arguing that the total amount allegedly covered by the Compromise Agreement amounted to P588,500.00, which exceeded the MTC's P200,000.00 jurisdictional limit. In an Order[12] dated June 28, 2002, the MTC denied the motion; it also granted Cresencia's prayer for the issuance of a writ of execution. The writ of execution[13] was subsequently issued on July 3, 2002. Petitioners' Motion for Reconsideration and to Quash Writ/Order of Execution[14] dated August 1, 2002 was denied by the MTC in an Order[15] dated September 5, 2002.

Undeterred, on October 10, 2002, petitioners filed a Petition for Certiorari and Prohibition with Application for Temporary Restraining Order/Preliminary Injunction[16] before the Regional Trial Court (RTC) of Bocaue. The case was raffled to Branch 82,[17] and docketed as Civil Case No. 764-M-2002. In their petition, petitioners argued that the MTC gravely abused its discretion in approving the Compromise Agreement because (1) the amount involved was beyond the jurisdiction of the MTC; (2) the MTC failed to ascertain that the parties fully understood the contents of the Agreement; (3) Cresencia had no authority to represent her co-heirs because Filomena's estate had a personality of its own; and (4) the Compromise Agreement was void for failure of the judge and Cresencia to explain the terms and conditions to the petitioners.

In their Comment[18] dated October 29, 2002, respondents argued that (1) the principal claim of P140,000.00 was within the MTC's jurisdiction; and (2) the records reveal that it was the petitioners themselves, assisted by their counsel, who proposed the terms of the settlement, which offer of compromise was accepted in open court by the respondents. Thus, the Compromise Agreement merely reduced the parties' agreement into writing.

Ruling of the Regional Trial Court

The RTC initially granted petitioners' prayer for the issuance of a Temporary Restraining Order (TRO)[19] on November 18, 2002, and later issued a preliminary injunction in an Order[20] dated December 10, 2002, primarily on the ground that the SPA did not specifically authorize Cresencia to settle the case. However, Presiding Judge Herminia V. Pasamba later inhibited herself,[21] so the case was re-raffled to Branch 6, presided over by Judge Manuel D.J. Siayngo.[22] The grant of the preliminary injunction was thus reconsidered and set aside in an Order[23] dated May 15, 2003. In the same Order, the RTC dismissed the petition and held that (1) the MTC had jurisdiction over the subject matter; (2) Cresencia was authorized to institute the action and enter into a Compromise Agreement on behalf of her co-heirs; and (3) the MTC's approval of the Compromise Agreement was not done in a capricious, whimsical, or arbitrary manner; thus, petitioners' resort to certiorari under Rule 65 was improper. Petitioners' Motion for Reconsideration[24] was denied,[25] hence they sought recourse before the CA.

Ruling of the Court of Appeals

In its Decision[26] dated May 13, 2004 and Resolution[27] dated October 5, 2004, the CA dismissed petitioners' appeal, and held that:

- 1) the MTC had jurisdiction, since the principal amount of the loan only amounted to P140,000.00;
- 2) Cresencia was duly authorized by her co-heirs to enter into the Compromise Agreement;
- 3) Petitioners improperly sought recourse before the RTC through a Petition for Certiorari under Rule 65, when the proper remedy was a Petition for Relief from Judgment under Rule 38.

Issues

Before us, petitioners claim that, first, they correctly resorted to the remedy of certiorari under Rule 65; second, the RTC gravely erred in dismissing their Petition for Certiorari and Prohibition, when the matter under consideration was merely the propriety of the grant of the preliminary injunction; and third, that the SPA did not validly authorize Cresencia to enter into the Compromise Agreement on behalf of her co-heirs.

Our Ruling

We deny the petition.

The MTC had jurisdiction over the case.

It bears stressing that the question of the MTC's jurisdiction has not been raised before this Court; hence, petitioners appear to have admitted that the MTC had jurisdiction to approve the Compromise Agreement. In any event, it is beyond dispute that the Judiciary Reorganization Act of 1980, or Batas Pambansa (BP) Blg. 129,[28] as amended by Republic Act No. 7691,[29] fixes the MTC's jurisdiction over cases where "the demand does not exceed Two hundred thousand pesos (P200,000.00) exclusive of interest, damages of whatever kind, attorney's fees, litigation expenses, and costs." [30] Thus, respondents' initiatory complaint, covering the principal amount of P140,000.00, falls squarely within the MTC's jurisdiction.

Petitioners properly resorted to the special civil action of certiorari.

On the first question, the CA held that the proper remedy from the MTC's Order approving the Compromise Agreement was a Petition for Relief from Judgment under Rule 38 and not a Petition for Certiorari under Rule 65. We recall that petitioners filed a verified Motion to Set Aside Decision on May 2, 2002,[31] which was denied by

the MTC on June 28, 2002. This Order of denial was properly the subject of a petition for certiorari, pursuant to Rule 41, Section 1, of the Rules of Court:

Section 1. Subject of Appeal - An appeal may be taken from a judgment or final order that completely disposes of the case, or of a particular matter therein when declared by these Rules to be appealable.

No appeal may be taken from:

x x x x

(e) an order denying a motion to set aside a judgment by consent, confession or compromise on the ground of fraud, mistake or duress, or any other ground vitiating consent.

x x x x

In all the above instances where the judgment or final order is not appealable, the aggrieved party may file an appropriate special civil action under Rule 65.

From the express language of Rule 41, therefore, the MTC's denial of petitioners' Motion to Set Aside Decision could not have been appealed. Indeed, a decision based on a compromise agreement is immediately final and executory and cannot be the subject of appeal,[32] for when parties enter into a compromise agreement and request a court to render a decision on the basis of their agreement, it is presumed that such action constitutes a waiver of the right to appeal said decision.[33] While there may have been other remedies available to assail the decision,[34] petitioners were well within their rights to institute a special civil action under Rule 65.

The Regional Trial Court rightly dismissed the petition for certiorari.

On the second issue, petitioners argue that the RTC, in reconsidering the order granting the application for writ of preliminary injunction, should not have gone so far as dismissing the main case filed by the petitioners. They claim that the issue in their application for writ of preliminary injunction was different from the issues in the main case for certiorari, and that the dissolution of the preliminary injunction should have been without prejudice to the conduct of further proceedings in the main case. They also claim that the RTC did not have the power to dismiss the case without requiring the parties to file memoranda.

These assertions are belied, however, by petitioners' own submissions.

Their arguments were exactly the same, whether relating to the preliminary or permanent injunction. Identical matters were at issue - the MTC's jurisdiction, petitioners' alleged vitiated consent, and the propriety of enforcing the Compromise Agreement. The reliefs sought, too, were the same, that is, the grant of an injunction against the enforcement of the compromise:[35]

WHEREFORE, it is most respectfully prayed that:

1) A Temporary Restraining Order and/or Preliminary Injunction issue ex parte directing the respondents to cease and desist from enforcing, executing, or implementing in any manner the Decision dated April 4, 2002 and acting in Civil Case No. MM-3191 until further orders from this Honorable Court.

2) After hearing, the temporary restraining order/ex parte injunction be replaced by a writ of preliminary injunction.

3) After hearing on the merits, judgment be rendered:

a. Making the injunction permanent.

Since the RTC found at the preliminary injunction phase that petitioners were not entitled to an injunction

(whether preliminary or permanent), that petitioners' arguments were insufficient to support the relief sought, and that the RTC's approval of the Compromise Agreement was not done in a capricious, whimsical, or arbitrary manner, the RTC was not required to engage in unnecessary duplication of proceedings. As such, it rightly dismissed the petition.

In addition, nothing in the Rules of Court commands the RTC to require the parties to file Memoranda. Indeed, Rule 65, Sec. 8 is explicit in that the court "may dismiss the petition if it finds the same to be patently without merit, prosecuted manifestly for delay, or that the questions raised therein are too unsubstantial to require consideration." [36]

Cresencia was authorized to enter into the Compromise Agreement.

As regards the third issue, petitioners maintain that the SPA was fatally defective because Cresencia was not specifically authorized to enter into a compromise agreement. Here, we fully concur with the findings of the CA that:

x x x It is undisputed that Cresencia's co-heirs executed a Special Power of Attorney, dated 6 April 1999, designating the former as their attorney-in-fact and empowering her to file cases for collection of all the accounts due to Filomena or her estate. Consequently, Cresencia entered into the subject Compromise Agreement in order to collect the overdue loan obtained by Pasco from Filomena. In so doing, Cresencia was merely performing her duty as attorney-in-fact of her co-heirs pursuant to the Special Power of Attorney given to her. [37]

Our ruling in *Trinidad v. Court of Appeals* [38] is illuminating. In *Trinidad*, the heirs of Vicente Trinidad executed a SPA in favor of Nenita Trinidad (Nenita) to be their representative in litigation involving the sale of real property covered by the decedent's estate. As here, there was no specific authority to enter into a Compromise Agreement. When a compromise agreement was finally reached, the heirs later sought to invalidate it, claiming that Nenita was not specifically authorized to enter into the compromise agreement. We held then, as we do now, that the SPA necessarily included the power of the attorney-in-fact to compromise the case, and that Nenita's co-heirs could not belatedly disavow their original authorization. [39] This ruling is even more significant here, where the co-heirs have not taken any action to invalidate the Compromise Agreement or assail their SPA.

Moreover, we note that petitioners never assailed the validity of the SPA during the pre-trial stage prior to entering the Compromise Agreement. This matter was never even raised as a ground in petitioners' Motion to Set Aside the compromise, or in the initial Petition before the RTC. It was only months later, in December 2002, that petitioners - rather self-servingly - claimed that the SPA was insufficient.

The stated interest rate should be reduced.

Although the petition is unmeritorious, we find the 5% monthly interest rate stipulated in Clause 4 of the Compromise Agreement to be iniquitous and unconscionable. Accordingly, the legal interest of 12% per annum must be imposed in lieu of the excessive interest stipulated in the agreement. As we held in *Castro v. Tan*: [40]

In several cases, we have ruled that stipulations authorizing iniquitous or unconscionable interests are contrary to morals, if not against the law. In *Medel v. Court of Appeals*, we annulled a stipulated 5.5% per month or 66% per annum interest on a P500,000.00 loan and a 6% per month or 72% per annum interest on a P60,000.00 loan, respectively, for being excessive, iniquitous, unconscionable and exorbitant. In *Ruiz v. Court of Appeals*, we declared a 3% monthly interest imposed on four separate loans to be excessive. In both cases, the interest rates were reduced to 12% per annum.

In this case, the 5% monthly interest rate, or 60% per annum, compounded monthly, stipulated in the

Kasulatan is even higher than the 3% monthly interest rate imposed in the Ruiz case. Thus, we similarly hold the 5% monthly interest to be excessive, iniquitous, unconscionable and exorbitant, contrary to morals, and the law. It is therefore void ab initio for being violative of Article 1306 of the Civil Code. x x x (citations omitted)

The proceeds of the loan should be released to Filomena's heirs only upon settlement of her estate.

Finally, it is true that Filomena's estate has a different juridical personality than that of the heirs. Nonetheless, her heirs certainly have an interest in the preservation of the estate and the recovery of its properties,[41] for at the moment of Filomena's death, the heirs start to own the property, subject to the decedent's liabilities. In this connection, Article 777 of the Civil Code states that "[t]he rights to the succession are transmitted from the moment of the death of the decedent." [42]

Unfortunately, the records before us do not show the status of the proceedings for the settlement of the estate of Filomena, if any. But to allow the release of the funds directly to the heirs would amount to a distribution of the estate; which distribution and delivery should be made only after, not before, the payment of all debts, charges, expenses, and taxes of the estate have been paid.[43] We thus decree that respondent Cresencia should deposit the amounts received from the petitioners with the MTC of Bocaue, Bulacan and in turn, the MTC of Bocaue, Bulacan should hold in abeyance the release of the amounts to Filomena's heirs until after a showing that the proper procedure for the settlement of Filomena's estate has been followed.

WHEREFORE, the petition is DENIED. The May 13, 2004 Decision of the Court of Appeals and its October 5, 2004 Resolution are AFFIRMED with MODIFICATIONS that the interest rate of 5% per month (60% per annum) is ordered reduced to 12 % per annum. Respondent Cresencia De Guzman-Principe is DIRECTED to deposit with the Municipal Trial Court of Bocaue, Bulacan the amounts received from the petitioners. The Municipal Trial Court of Bocaue, Bulacan is likewise DIRECTED to hold in abeyance the release of any amounts recovered from the petitioners until after a showing that the procedure for settlement of estates of Filomena de Guzman's estate has been followed, and after all charges on the estate have been fully satisfied.

SO ORDERED.

Corona, C.J., (Chairperson), Velasco, Jr., Leonardo-De Castro, and Perez, JJ., concur.

[1] Rollo, pp. 8-27.

[2] Id. at 29-36; penned by Associate Justice Perlita J. Tria Tirona and concurred in by Associate Justices B.A. Adefuin-de la Cruz and Arturo D. Brion (now a Member of this Court).

[3] Id. at 38-40; penned by Associate Justice Perlita J. Tria Tirona and concurred in by Associate Justices Arturo D. Brion and Japar B. Dimaampao.

[4] Records, pp. 89-92.

[5] Presided over by Judge Lauro G. Bernardo.

[6] Records, p. 93. See Kasulatan ng Sanglaan ng Ari-Ariang Natitinag, Annex "A" of the Complaint. The records do not contain the date of Filomena de Guzman's death.

[7] Id. at 133.

[8] Id. at 94-95.

[9] Id. at 19-20.

- [10] Id.
- [11] Id. at 25-29.
- [12] Id. at 21-23.
- [13] Id. at 37-38.
- [14] Id. at 32-36.
- [15] Id. at 30.
- [16] Id. at 3-18.
- [17] Presided over by Judge Herminia V. Pasamba.
- [18] Records, pp. 70-77.
- [19] Id. at 98-100.
- [20] Id. at 141-143.
- [21] Order dated January 24, 2003, id. at 179.
- [22] Order dated February 6, 2003, id. at 183.
- [23] Id. at 207-211.
- [24] Id. at 214-227.
- [25] Order dated September 5, 2003, id. at 241-244.
- [26] Rollo, at 29-36.
- [27] Id. at 38-40.
- [28] An Act Reorganizing The Judiciary, Appropriating Funds Therefor, And For Other Purposes.
- [29] An Act Expanding The Jurisdiction Of The Metropolitan Trial Courts, Municipal Trial Courts, And Municipal Circuit Trial Courts, Amending For The Purpose Batas Pambansa Blg. 129, Otherwise Known As The "Judiciary Reorganization Act Of 1980" (1994).
- [30] Section 33 of BP No. 129, as amended, provides:
- Section 33. Jurisdiction of Metropolitan Trial Courts, Municipal Trial Courts and Municipal Circuit Trial Courts in civil cases. -- Metropolitan Trial Courts, Municipal Trial Courts, and Municipal Circuit Trial Courts shall exercise:
- (1) Exclusive original jurisdiction over civil actions and probate proceedings, testate and intestate, including the grant of provisional remedies in proper cases, where the value of the personal property, estate, or amount of the demand does not exceed One hundred thousand pesos (P100,000.00) or, in Metro Manila where such personal property, estate, or amount of the demand does not exceed Two hundred thousand pesos (P200,000.00) exclusive of interest, damages of whatever kind, attorney's fees, litigation expenses, and costs, the amount of which must be specifically alleged: Provided, That where there are several claims or causes of action between the same or different parties, embodied in the same complaint, the amount of the demand shall be the totality of the claims in all the causes of action, irrespective of whether the causes of action arose out of the same or different transactions;

[31] Records, pp. 25-29.

[32] Hon. Abarintos v. Court of Appeals, 374 Phil. 157, 169 (1999).

[33] Cadano v. Cadano, 151 Phil. 156, (1973).

[34] For instance, remedies under Rules 38 or 47 of the Rules of Court.

[35] Records, p. 15.

[36] Rule 65, Sec. 8 of the Rules of Court provides:

Sec. 8. Proceedings after comment is filed.

After the comment or other pleadings required by the court are filed, or the time for the filing thereof has expired, the court may hear the case or require the parties to submit memoranda. If after such hearing or submission of memoranda or the expiration of the period for the filing thereof the court finds that the allegations of the petition are true, it shall render judgment for the relief prayed for or to which the petitioner is entitled.

The court, however, may dismiss the petition if it finds the same to be patently without merit, prosecuted manifestly for delay, or that the questions raised therein are too unsubstantial to require consideration.

[37] Rollo, p. 34.

[38] 411 Phil. 44, 50-51 (2001).

[39] A reading of the special power of attorney, as well as the concurrent turn of events, would precisely point to the fact that the special power of attorney was intended to have Nenita Trinidad help resolve the differences of the parties in the contract to sell.

[40] G.R. No. 168940, November 24, 2009, 605 SCRA 231, 238.

[41] Palicte v. Judge Ramolete, 238 Phil. 128, 134 (1987).

[42] The possession of hereditary property is deemed transmitted to the heir without interruption and from the moment of the death of the decedent, in case the inheritance is accepted (Civil Code of the Philippines, Art. 533). Where there are two or more heirs, the whole estate of the decedent is, before its partition, owned in common by such heirs. See Acebedo v. Abesamis, G.R. No. 102380, January 18, 1993, 217 SCRA 186, 194-195; Mendoza I v. Court of Appeals, G.R. No. 44664, July 31, 1991, 199 SCRA 778, 787; Civil Code of the Philippines, Art. 1078.

[43] Rules of Court, Rule 90, Section 1; Lat v. Court of Appeals and Banzuela, 115 Phil. 205, 209 (1962).

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