

LCK INDUSTRIES INC., CHIKO LIM AND ELIZABETH T. LIM, PETITIONERS, VS. PLANTERS DEVELOPMENT BANK, RESPONDENT.

G.R. No. 170606. November 23, 2007

Ponente: CHICO-NAZARIO, J.

Read online (full-text search, related cases, audio case brief): <https://batas.org/library/g-r-no-170606/>

CHICO-NAZARIO, J.:

Before this Court is the Petition for Review on Certiorari under Rule 45 of the Revised Rules of Court filed by petitioners LCK Industries Inc. (LCK), Chiko Lim and Elizabeth Lim, seeking the reversal and the setting aside of the Decision[1] dated 1 April 2005 and the Resolution[2] dated 29 November 2005 of the Court of Appeals in CA-G.R. CV No. 73944. The appellate court, in its assailed Decision and Resolution, reversed the Decision[3] of the Regional Trial Court (RTC) of Quezon City, Branch 81, dated 3 September 2001, in Civil Case No. Q-98-33835, which found respondent Planters Development Bank (respondent bank) liable for the amount of P1,856,416.67, representing overpayment.

Petitioner LCK is a domestic corporation duly organized and existing as such under Philippine laws.[4]

Respondent bank is a banking institution duly authorized to engage in banking business under Philippine laws.[5]

On 1 September 1995, petitioner LCK obtained a loan from the respondent bank in the amount of P3,000,000.00 as evidenced by two promissory notes.[6]

As a security for the loan obligation, petitioners-spouses Chiko and Elizabeth Lim executed a Real Estate Mortgage over a parcel of land covered by Transfer Certificate of Title (TCT) No. T-138623, registered under their names and located at Quezon City, with an area of 68 square meters (Quezon City property).[7] Later on, to secure the same obligation, another Real Estate Mortgage was executed over another parcel of land covered by TCT No. T-62773, also registered under the names of the petitioner-spouses, with an area of 71 square meters located at Baguio City (Baguio City property).[8]

Subsequently, petitioner LCK incurred default in its payment; thus, making the obligation due and demandable. Several demands were thereafter made by the respondent bank to no avail.[9] On 13 October 1997, a final letter-demand was sent by respondent bank to petitioner LCK asking for the payment of its obligation in the amount of P2,962,500.00. Such final demand notwithstanding, petitioner LCK failed or refused to pay its obligation.

Consequently, respondent bank caused the extrajudicial foreclosure of the Baguio City property which was sold at the public auction for P2,625,000.00 as shown in the Certificate of Sale[10] dated 29 January 1998. Since the proceeds of the foreclosed Baguio City property were not enough to satisfy the entire loan obligation which amounted to P2,962,500.00, respondent bank further caused the extrajudicial foreclosure of the Quezon City property. As evidenced by the Certificate of Sale[11] dated 18 March 1998, signed by Notary Public Atty. Allene Anigan (Atty. Anigan), the foreclosed Quezon City property was sold at a public auction for P2,231,416.67. The respondent bank was the highest bidder on both occasions.

Prior to the auction sale of the Quezon City property on 18 March 1998, petitioners, on 12 March 1998, filed with the RTC of Quezon City, Branch 81, an action for Annulment of the Foreclosure of Mortgage and Auction Sale of the Quezon City property with Restraining Order/Preliminary Injunction and with Damages against respondent bank and Atty. Anigan.[12] The case was docketed as Civil Case No. Q-98-33835.

In their Complaint,[13] petitioners alleged that respondent bank failed to comply with the posting and publication requirements as well as with the filing of the Petition for the Extrajudicial Foreclosure of the Real Estate Mortgage with the Clerk of Court as required by Act No. 3135.[14] Petitioners prayed for the issuance of temporary restraining order (TRO) in order to enjoin the respondent bank from conducting the auction sale, and in the alternative, to enjoin the Registry of Deeds of Quezon City from transferring the ownership of the Quezon City property to the purchaser at the auction sale.

In its Answer with the Opposition to the Prayer for the Issuance of Temporary Restraining Order (TRO), respondent bank averred that it had fully observed the posting and publication requirements of Act No. 3135. It insisted that the filing of the Petition for Extrajudicial Foreclosure of the Mortgage Property with the Notary Public was sanctioned by the same statute. Respondent bank thus prayed for the dismissal of petitioners' complaint for lack of merit.[15]

For failure of the counsels for both petitioners and respondent bank to appear in the scheduled hearing for the issuance of temporary restraining order, the RTC, in an Order dated 15 May 1998, deemed the prayer for TRO abandoned.[16]

Thereafter, the RTC conducted a pre-trial conference. In the Pre-Trial Order[17] dated 8 September 2000, the parties made the following admissions and stipulations:

- (1) the real estate mortgage executed by the plaintiffs in favor of the defendant bank covers the loan obligation in the total amount of P3,000,000.00;
- (2) there were two promissory notes executed by the plaintiffs: one for P2,700,000.00 and another for P300,000.00;
- (3) a demand letter dated 13 October 1997 was sent to petitioner LCK by respondent bank stating that the remaining balance of petitioner LCK's loan obligation was P2,962,500.00 as of 13 October 1997;
- (4) a Notice of Auction Sale by Notary Public was made by the respondent bank in foreclosing the Baguio City property, and in the Certificate of Sale issued by the Notary Public, the respondent bank bid P2,625,000.00 for the property;
- (5) the respondent bank also foreclosed the real estate mortgage over the petitioners' Quezon City property on 18 March 1998 and said defendant bank bid P2,231,416.67 for the property;
- (6) the foreclosure of petitioners' Quezon City property was made by a notary public;
- (7) the petition for foreclosure was not included in the raffle of judicial notice;
- (8) the petitioners failed to fully pay their loan obligation as of 13 October 1997 in the amount of P962,500.00; and
- (9) despite the demands, petitioners failed to pay their due obligations.

The court further defined the issues as follows:

- (1) whether or not the petition was filed with the Office of the Clerk of Court;

(2) whether or not the extra-judicial foreclosure of real estate mortgage by defendant bank was made in accordance with the provisions of Act 3135, as amended; and

(3) whether or not the parties are entitled to their respective claims for attorney's fees and damages.[18]

The parties were given 15 days from receipt of the Pre-Trial Order to make amendments or corrections thereon.

On 18 April 2001, the parties agreed to submit the case for the decision of the RTC based on the stipulations and admissions made at the pre-trial conference. The parties further manifested that they were waiving their respective claims for attorney's fees. On the same day, the RTC required the parties to submit their respective memoranda.[19]

In their Memorandum,[20] petitioners, aside from reiterating issues previously raised in their Complaint, further claimed that there was an overpayment of the loan obligation by P1,856,416.67. As shown in the letter-demand dated 13 October 1997 received by petitioner LCK, its outstanding loan obligation amounted to P2,962,500.00. The Baguio City property was purchased by respondent bank at the public auction for P2,625,000.00, while the Quezon City property was purchased for P2,231,416.67.

For its part, respondent bank maintained in its Memorandum[21] that the complaint filed by petitioners is devoid of merit. It further asseverated that petitioners' claim for overpayment was not among the issues submitted for the resolution of the RTC. It is clear from the Pre-Trial Order that the issues to be resolved are limited to whether the petition for the foreclosure of the real estate mortgage was filed before the Clerk of Court and whether or not the extrajudicial foreclosure of real estate mortgage was made by the respondent bank in accordance with the provisions of Act No. 3135. For failure of petitioners to promptly raise the alleged overpayment, the RTC is now barred from adjudicating this issue.

On 3 September 2001, the RTC rendered its Decision[22] declaring the foreclosure and the auction sale of the Quezon City property legal and valid, but ordered respondent bank to return the overpayment made by petitioners in the amount of P1,856,416.67. The dispositive portion of the RTC Decision reads:

WHEREFORE, premises considered, judgment is hereby rendered as follows:

- Declaring the extra-judicial foreclosure and auction sale of the Quezon City property of plaintiffs LCK Industries, Inc., Chiko Lim and Elizabeth Lim subject of this case legal and valid;
- Ordering defendant Planters Development Bank to pay to plaintiffs the amount of P1,856,416.67 representing overpayment;
- Dismissing plaintiffs' claim for attorney's fees and other litigation expenses;
- Dismissing the case against defendant Atty. Allene M. Anigan; and
- Dismissing the counterclaims of defendants Planters Development Bank and Atty. Arlene M. Anigan.[23]

For lack of merit, the Motion for Reconsideration filed by the respondent bank was denied by the RTC in its Order dated 3 December 2001.[24]

Aggrieved, respondent bank elevated the matter to the Court of Appeals by assailing the portion of the RTC Decision ordering it to pay petitioners the amount of P1,856,416.67 representing the alleged overpayment. The respondent bank's appeal was docketed as CA-G.R. CV No. 73944.[25]

On 1 April 2005, the Court of Appeals granted the appeal of the respondent bank and partially reversed the RTC Decision insofar as it ordered respondent bank to pay the overpaid amount of P1,856,416.67 to petitioners. In

deleting the award of overpayment, the appellate court emphasized that the primary purpose of pre-trial is to make certain that all issues necessary for the disposition of the case are properly raised in order to prevent the element of surprise. Since the alleged overpayment was only raised by the petitioners long after the pre-trial conference, the court a quo cannot dispose of such issue without depriving the respondent bank of its right to due process.[26]

The Motion for Reconsideration filed by petitioners was denied by the Court of Appeals in its Resolution[27] dated 29 November 2005.

Petitioners are now before this Court via a Petition for Review on Certiorari,[28] under Rule 45 of the Revised Rules of Court, assailing the Court of Appeals Decision and raising the following issues as grounds:

I.

WHETHER OR NOT THE EXCESS AMOUNT OF P1,893,916.67 WHICH THE RESPONDENT BANK ACQUIRED FROM THE AUCTION SALE OF THE PETITIONERS' PROPERTIES SHALL BE RETURNED TO THEM.

II.

WHETHER OR NOT THE ISSUE OF OVERPAYMENT WAS RAISED BY THE PARTIES AND INCLUDED IN THE PRE-TRIAL ORDER.[29]

The petition centers on the claim propounded by petitioners that there was an overpayment of the loan obligation in the amount of P1,856,416.67. Petitioners insist they are entitled to the reimbursement of the overpaid amount invoking the elementary principle of in rem verso[30] in human relations and the rule on the disposition of the proceeds of the sale providing that the balance or the residue after deducting the cost of the sale and the payment of the mortgage debt due, shall be paid to the junior encumbrancers, and in the absence of junior encumbrancers, to the mortgagor or his duly authorized representative.[31]

On the other hand, respondent bank counters that the question of overpayment, not being included in the issues stipulated in Pre-Trial Order dated 8 September 2000, and totally unrelated therein, cannot be considered by the RTC. The belated ventilation of the alleged overpayment precluded the RTC from ruling on the matter in consonance with the primordial purpose of the pre-trial conference which is to delineate the issues necessary for the disposition of the case. [32]

The conduct of pre-trial in civil actions has been mandatory as early as 1 January 1964 upon the effectivity of the Revised Rules of Court.[33] Pre-trial is a procedural device intended to clarify and limit the basic issues between the parties[34] and to take the trial of cases out of the realm of surprise and maneuvering.[35]

Pre-trial is an answer to the clarion call for the speedy disposition of cases. Hailed as the most important procedural innovation in Anglo-Saxon justice in the nineteenth century,[36] pre-trial is a device intended to clarify and limit the basic issues between the parties.[37] It thus paves the way for a less cluttered trial and resolution of the case.[38] Pre-trial seeks to achieve the following:

- (a) The possibility of an amicable settlement or of a submission to alternative modes of dispute resolution;
- (b) The simplification of the issues;
- (c) The necessity or desirability of amendments to the pleadings;

(d) The possibility of obtaining stipulations or admissions of facts and of documents to avoid unnecessary proof;

(e) The limitation of the number of witnesses;

(f) The advisability of a preliminary reference of issues to a commissioner;

(g) The propriety of rendering judgment on the pleadings, or summary judgment, or of dismissing the action should a valid ground therefor be found to exist;

(h) The advisability or necessity of suspending the proceedings; and

(i) Such other matters as may aid in the prompt disposition of the action.[39]

The purpose of entering into a stipulation of facts is to expedite trial and to relieve the parties and the court as well of the costs of proving facts which will not be disputed on trial and the truth of which can be ascertained by reasonable inquiry. Its main objective is to simplify, abbreviate and expedite the trial, or totally dispense with it.[40]

The parties themselves or their representative with written authority from them are required to attend in order to arrive at a possible amicable settlement, to submit to alternative modes of dispute resolution, and to enter into stipulations or admissions of facts and documents. All of the matters taken up during the pre-trial, including the stipulation of facts and the admissions made by the parties, are required to be recorded in a pre-trial order.[41]

Thus, Section 7, Rule 18 of the Revised Rules of Court provides:

SEC. 7. Record of pre-trial. – The proceedings in the pre-trial shall be recorded. Upon the termination thereof, the court shall issue an order which shall recite in detail the matters taken up in the conference, the action taken thereon, the amendments allowed to the pleadings, and the agreements or admissions made by the parties as to any of the matters considered. Should the action proceed to trial, the order shall explicitly define and limit the issues to be tried. The contents of the order shall control the subsequent course of the action, unless modified before trial to prevent manifest injustice.

In the Pre-Trial Order dated 8 September 2000, the RTC defined the issues as follows: (1) whether or not the petition was filed with the Office of the Clerk of Court; (2) whether or not the extrajudicial foreclosure of real estate mortgage by defendant bank was made in accordance with the provisions of Act No. 3135; and (3) whether or not the parties are entitled to their respective claims for attorney's fees and damages.

Based on the admissions and stipulations during the pre-trial conference and the issues defined by the court a quo as embodied in the Pre-Trial Order, the parties agreed to submit the case for the resolution of the RTC. Both petitioners and respondent also manifested that they would forego their respective claims for attorney's fees, leaving solely the issue of the validity of the foreclosure of mortgage and auction sale for the RTC's disposition. However, in petitioners' Memorandum filed after the case was submitted for resolution, petitioners raised the question of overpayment, a new issue that was included neither in their Complaint nor in the issues defined in the

Pre-Trial Order issued by the RTC.

Generally, pre-trial is primarily intended to make certain that all issues necessary to the disposition of a case are properly raised. Thus, to obviate the element of surprise, parties are expected to disclose at the pre-trial conference all issues of law and fact they intend to raise at the trial.[42] However, in cases in which the issue may involve privileged or impeaching matters,[43] or if the issues are impliedly included therein or may be inferable therefrom by necessary implication to be integral parts of the pre-trial order as much as those that are expressly stipulated, the general rule will not apply.[44] Thus, in *Velasco v. Apostol*,[45] this Court highlighted the aforesaid exception and ruled in this wise:

A pre-trial order is not meant to be a detailed catalogue of each and every issue that is to be or may be taken up during the trial. Issues that are impliedly included therein or may be inferable therefrom by necessary implication are as much integral parts of the pre-trial order as those that are expressly stipulated.

In fact, it would be absurd and inexplicable for the respondent company to knowingly disregard or deliberately abandon the issue of non-payment of the premium on the policy considering that it is the very core of its defense. Correspondingly, We cannot but perceive here an undesirable resort to technicalities to evade an issue determinative of a defense duly averred. (Emphasis supplied).

The case at bar falls under this particular exception. Upon scrupulous examination of the Pre-Trial Order dated 8 September 2000, it can be deduced that the parties stipulated that the remaining sum of petitioner LCK's obligation as of 13 October 1997 was P2,962,500.00. In the same Pre-Trial Order, the parties likewise stipulated that the Baguio City property was sold at the public auction for P2,625,000.00 and the Quezon City property for P2,231,416.67. On both occasions, respondent bank emerged as the highest bidder. By applying simple mathematical operation, the mortgaged properties were purchased by the respondent at the public auctions for P4,856,416.67; thus, after deducting therefrom the balance of petitioner LCK's obligation in the amount of P2,962,500.00, an excess in the sum of P1,893,916.67 remains.

Needless to say, the fact of overpayment, though not expressly included in the issues raised in the Pre-Trial Order dated 8 September 2000, can be evidently inferred from the stipulations and admissions made by the parties therein. Even only upon plain reading of the said Pre-Trial Order, it can be readily discerned that there was an overpayment.

The pertinent provisions of the Revised Rules of Court on extrajudicial foreclosure sale provide:

Rule 39. SEC. 21. Judgment obligee as purchaser. – When the purchaser is the judgment obligee, and no third-party claim has been filed, he need not pay the amount of the bid if it does not exceed the amount of the judgment. If it does, he shall pay only the excess.

Rule 68. SEC. 4. Disposition of proceeds of sale.- The amount realized from the foreclosure sale of the mortgaged property shall, after deducting the costs of the sale, be paid to the person foreclosing the mortgage, and when there shall be any balance or residue, after paying off the mortgage debt due, the same shall be paid to junior encumbrancers in the order of their priority, to be ascertained by the court, or if there be no such encumbrancers or there be a balance or residue after payment to them, then to the mortgagor or his duly authorized agent, or to the person entitled to it. (Emphasis supplied.)

The renowned jurist Florenz Regalado, in *Sulit v. Court of Appeals*,[46] underscored the obligation of the mortgagee with respect to the surplus money resulting from a foreclosure sale of the mortgaged property:

The application of the proceeds from the sale of the mortgaged property to the mortgagor's obligation is an act of payment, not payment by dation; hence, it is the mortgagee's duty to return any surplus in the selling price to the mortgagor. Perforce, a mortgagee who exercises the power of sale contained in a mortgage is considered

a custodian of the fund, and, being bound to apply it properly, is liable to the persons entitled thereto if he fails to do so. And even though the mortgagee is not strictly considered a trustee in a purely equitable sense, but as far as concerns the unconsumed balance, the mortgagee is deemed a trustee for the mortgagor or owner of the equity of redemption.

Commenting on the theory that a mortgagee, when he sells under a power, cannot be considered otherwise than as a trustee, the vice-chancellor in *Robertson v. Norris* (1 Giff. 421) observed: "That expression is to be understood in this sense: that with the power being given to enable him to recover the mortgage money, the court requires that he shall exercise the power of sale in a provident way, with a due regard to the rights and interests of the mortgagor in the surplus money to be produced by the sale. (Emphasis supplied.)

Petitioner LCK's obligation with the respondent bank was already fully satisfied after the mortgaged properties were sold at the public auction for more than the amount of petitioner LCK's remaining debt with the respondent bank. As the custodian of the proceeds from the foreclosure sale, respondent bank has no legal right whatsoever to retain the excess of the bid price in the sum of P1,893,916.67, and is under clear obligation to return the same to petitioners.

In any case, this Court would not allow respondent bank to hide behind the cloak of procedural technicalities in order to evade its obligation to return the excess of the bid price, for such an act constitutes a violation of the elementary principle of unjust enrichment in human relations.

Under the principle of unjust enrichment - *nemo cum alterius detrimento locupletari potest* - no person shall be allowed to enrich himself unjustly at the expense of others.[47] This principle of equity has been enshrined in our Civil Code, Article 22 of which provides:

Art. 22. Every person who through an act of performance by another, or any other means, acquires or comes into possession of something at the expense of the latter without just or legal ground, shall return the same to him.

We have held that there is unjust enrichment when a person unjustly retains a benefit to the loss of another, or when a person retains the money or property of another against the fundamental principles of justice, equity and good conscience.[48]

Equity, as the complement of legal jurisdiction, seeks to reach and complete justice where courts of law, through the inflexibility of their rules and want of power to adapt their judgments to the special circumstances of cases, are incompetent to do so. Equity regards the spirit and not the letter, the intent and not the form, the substance rather than the circumstance, as it is variously expressed by different courts.[49]

It is the policy of the Court to afford party-litigants the amplest opportunity to enable them to have their cases justly determined, free from constraints of technicalities. Since the rules of procedures are mere tools designed to facilitate the attainment of justice, it is well recognized that this Court is empowered to suspend its operation, or except a particular case from its operation, when the rigid application thereof tends to frustrate rather promote the ends of justice.[50]

Court litigations are primarily for search of truth, and a liberal interpretation of the rules by which both parties are given the fullest opportunity to adduce proofs is the best way to ferret such truth. The dispensation of justice and vindication of legitimate grievances should not be barred by technicalities.[51]

Given the foregoing discussion, this Court finds the respondent bank liable not only for retaining the excess of the bid price or the surplus money in the sum of P1,893,916.67, but also for paying the interest thereon at the rate of 6% per annum from the time of the filing of the complaint until finality of judgment. Once the judgment becomes

final and executory, the interest of 12% per annum, should be imposed, to be computed from the time the judgment becomes final and executory until fully satisfied.[52]

WHEREFORE, premises considered, the instant Petition is GRANTED. The Court of Appeals Decision dated 1 April 2005 and its Resolution dated 29 November 2005 in CA-G.R. CV No. 73944 are hereby REVERSED. Respondent Planters Development Bank is ORDERED to return to the petitioners LCK Industries Inc., Chiko Lim and Elizabeth Lim, the sum of P1,893,916.67 with interest computed at 6% per annum from the time of the filing of the complaint until its full payment before finality of judgment. Thereafter, if the amount adjudged remains unpaid, the interest rate shall be 12% per annum computed from the time the judgment became final and executory until fully satisfied. Costs against respondent Planters Development Bank.

SO ORDERED.

Ynares-Santiago, (Chairperson), Austria-Martinez, Nachura, and Reyes, JJ., concur.

[1] Penned by Associate Justice Celia Librea-Leagogo with Associate Justices Andres B. Reyes, Jr. and Lucas P. Bersamin, concurring. Rollo, pp. 42-64.

[2] Id. at 65-66.

[3] Id. at 35-40.

[4] Id. at 17.

[5] Id.

[6] Id. at 38.

[7] Id.

[8] Id.

[9] Id.

[10] Id. at 13-14.

[11] Id. at 15-16.

[12] Id. at 17-23.

[13] Id. at 17-23.

[14] An Act to Regulate the Sale of Property under Special Powers Inserted in or Annexed to Real Estate Mortgages.

[15] Id. at 36-37.

[16] Id. at 37.

[17] Id.

[18] Id. at 38.

[19] Id.

[20] Id. at 24-27.

[21] Id. at 28-34.

[22] Id. at 35-40.

[23] Id. at 40.

[24] Id. at 41.

[25] Id. at 42.

[26] Id. at 42-64.

[27] Id. at 65.

[28] Id. at 3-11.

[29] Id. at 91.

[30] CIVIL CODE, Article 22. Every person who through an act of performance by another, or any other means, acquires or comes into possession of something at the expense of the latter without just or legal ground, shall return the same to him.

[31] Revised Rules of Court, Rule 68, Section 4.

[32] Rollo, pp. 74-87.

[33] Development Bank of the Philippines v. Court of Appeals, G.R. No. 49410, 26 January 1989, 169 SCRA 409, 412-413.

[34] Interlining Corporation v. Philippine Trust Company, 428 Phil. 584, 588 (2002).

[35] Permanent Concrete Products, Inc. v. Teodoro, 135 Phil. 364, 367 (1968).

[36] Tiu v. Middleton, 369 Phil. 829, 835 (1999).

[37] Interlining Corporation v. Philippine Trust Company, *supra* note 34.

[38] Id.

[39] REVISED RULES OF COURT, Rule 18, Section 2.

[40] Interlining Corporation v. Philippine Trust Company, *supra* note 34.

[41] Alarcon v. Court of Appeals, 380 Phil. 678, 697-698 (2000).

[42] Caltex (Philippines), Inc. v. Court of Appeals, G.R. No. 97753, 10 August 1992, 212 SCRA 449, 462.

[43] Co v. Court of Appeals, 353 Phil. 305, 312 (1998).

[44] Velasco v. Apostol, G.R. No. 44588, 9 May 1989, 173 SCRA 228, 232-233.

[45] Id.

[46] 335 Phil. 914, 926-927.

[47] National Development Company v. Madrigal Wan Hai Lines Corporation, 458 Phil. 1039, 1054-1055 (2003).

[48] Car Cool Philippines, Inc. v. Ushio Realty and Development Corporation, G.R. No. 138088, 23 January 2006, 479 SCRA 404, 412.

[49] *Tamio v. Ticson*, G.R. No. 154895, 18 November 2004, 443 SCRA 44, 55.

[50] *Metro Rail Transit Corporation v. Court of Tax Appeals*, G.R. No. 166273, 21 September 2005, 470 SCRA 562, 566.

[51] *Go v. Tan*, 458 Phil. 727, 736-737 (2003).

[52] II. With regard particularly to an award of interest in the concept of actual and compensatory damages, the rate of interest, as well as the accrual thereof, is imposed, as follows:

- When the obligation is breached, and it consists in the payment of a sum of money, i.e., a loan or forbearance of money, the interest due should be that which may have been stipulated in writing. Furthermore, the interest due shall itself earn legal interest from the time it is judicially demanded. In the absence of stipulation, the rate of interest shall be 12% per annum to be computed from default, i.e., from judicial or extrajudicial demand under and subject to the provisions of Article 1169 of the Civil Code.

- When an obligation, not constituting a loan or forbearance of money, is breached, an interest on the amount of damages awarded may be imposed at the discretion of the court at the rate of 6% per annum. No interest, however, shall be adjudged on unliquidated claims or damages except when or until the demand can be established with reasonable certainty. Accordingly, where the demand is established with reasonable certainty, the interest shall begin to run from the time the claim is made judicially or extrajudicially (Art. 1169, Civil Code) but when such certainty cannot be so reasonably established at the time the demand is made, the interest shall begin to run only from the date the judgment of the court is made (at which time the quantification of damages may be deemed to have been reasonably ascertained). The actual base for the computation of legal interest shall, in any case, be on the amount finally adjudged.

- When the judgment of the court awarding a sum of money becomes final and executory, the rate of legal interest, whether the case falls under paragraph 1 or paragraph 2, above, shall be 12% per annum from such finality until its satisfaction, this interim period being deemed to be by then an equivalent to a forbearance of credit. (*Eastern Shipping Lines, Inc. v. Court of Appeals*, G.R. No. 97412, 12 July 1994, 234 SCRA 78, 95-97).

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.