

JOCELYN M. TOLEDO, PETITIONER, VS. MARILOU M. HYDEN, RESPONDENT.

G.R. No. 172139. December 08, 2010

Ponente: DEL CASTILLO, J.

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DEL CASTILLO, J.:

It is true that the imposition of an unconscionable rate of interest on a money debt is immoral and unjust and the court may come to the aid of the aggrieved party to that contract. However, before doing so, courts have to consider the settled principle that the law will not relieve a party from the effects of an unwise, foolish or disastrous contract if such party had full awareness of what she was doing.

This Petition for Review on Certiorari[1] assails the Decision[2] dated August 24, 2005 of the Court of Appeals (CA) in CA-G.R. CV No. 79805, which affirmed the Decision dated March 10, 2003[3] of the Regional Trial Court (RTC), Branch 22, Cebu City in Civil Case No. CEB-22867. Also assailed is the

Resolution dated March 8, 2006 denying the motion for reconsideration.

Factual Antecedents

Petitioner Jocelyn M. Toledo (Jocelyn), who was then the Vice-President of the College Assurance Plan (CAP) Phils., Inc., obtained several loans from respondent Marilou M. Hyden (Marilou). The transactions are briefly summarized below:

1) August 15, 1993

P 30,000.00

with 6% monthly interest

2) April 21, 1994

100,000.00

with 6% monthly interest

3) October 2, 1995

30,000.00

with 6% monthly interest

4) October 9, 1995

30,000.00

with 6% monthly interest

5) May 22, 1997

100,000.00

with 7% monthly interest

TOTAL AMOUNT OF LOAN

P 290,000.00[4]

From August 15, 1993 up to December 31, 1997, Jocelyn had been religiously paying Marilou the stipulated monthly interest by issuing checks and depositing sums of money in the bank account of the latter. However, the total principal amount of P290,000.00 remained unpaid. Thus, in April 1998, Marilou visited Jocelyn in her office at CAP in Cebu City and asked Jocelyn and the other employees who were likewise indebted to her to acknowledge their debts. A document entitled "Acknowledgment of Debt"[5] for the amount of P290,000.00 was signed by Jocelyn with two of her subordinates as witnesses. The said amount represents the principal consolidated amount of the aforementioned previous debts due on December 25, 1998. Also on said occasion, Jocelyn issued five checks to Marilou representing renewal payment of her five previous loans, viz:

Check No. 0010761 dated September 2, 1998

.....

P 30,000.00

Check No. 0010762 dated September 9, 1998

.....

30,000.00

Check No. 0010763 dated September 15, 1998

.....

30,000.00

Check No. 0010764 dated September 22, 1998

.....

100,000.00

Check No. 0010765 dated September 25, 1998

.....

100,000.00

TOTAL

P 290,000.00

In June 1998, Jocelyn asked Marilou for the recall of Check No. 0010761 in the amount of P30,000.00 and replaced the same with six checks, in staggered amounts, namely:

Check No. 0010494 dated July 2, 1998

P 6,625.00

Check No. 0010495 dated August 2, 1998

6,300.00

Check No. 0010496 dated September 2, 1998

5,975.00

Check No. 0010497 dated October 2, 1998

6,500.00

Check No. 0010498 dated November 2, 1998

5,325.00

Check No. 0010499 dated December 2, 1998

5,000.00

TOTAL

P 35,725.00

After honoring Check Nos. 0010494, 0010495 and 0010496, Jocelyn ordered the stop payment on the remaining checks and on October 27, 1998, filed with the RTC of Cebu City a complaint[6] against Marilou for Declaration of Nullity and Payment, Annulment, Sum of Money, Injunction and Damages.

Jocelyn averred that Marilou forced, threatened and intimidated her into signing the "Acknowledgment of Debt" and at the same time forced her to issue the seven postdated checks. She claimed that Marilou even threatened to sue her for violation of Batas Pambansa (BP) Blg. 22 or the Bouncing Checks Law if she will not sign the said document and draw the above-mentioned checks. Jocelyn further claimed that the application of her total payment of P528,550.00 to interest alone is illegal, unfounded, unjust, oppressive and contrary to law because there was no written agreement to pay interest.

On November 23, 1998, Marilou filed an Answer[7] with Special Affirmative Defenses and Counterclaim alleging that Jocelyn voluntarily obtained the said loans knowing fully well that the interest rate was at 6% to 7% per month. In fact, a 6% to 7% advance interest was already deducted from the loan amount given to Jocelyn.

Ruling of the Regional Trial Court

The court a quo did not find any showing that Jocelyn was forced, threatened, or intimidated in signing the document referred to as "Acknowledgment of Debt" and in issuing the postdated checks. Thus, in its March 10, 2003 Decision the trial court ruled in favor of Marilou, viz:

WHEREFORE, premised on the foregoing, the Court hereby declares the document "Acknowledgment of Debt" valid and binding. PLAINTIFF is indebted to DEFENDANT [for] the amount of TWO HUNDRED NINETY THOUSAND (P290,000.00) PESOS since December 25, 1998 less the amount of EIGHTEEN THOUSAND NINE HUNDRED (P18,900.00) PESOS, equivalent to the three checks made good (P6,625.00 dated 07-02-1998; P6,300.00 dated 08-02-1998; and P5,975.00 dated 09-02-1998).

Consequently, PLAINTIFF is hereby ordered to pay DEFENDANT the amount of TWO HUNDRED SEVENTY ONE THOUSAND ONE HUNDRED (P271,100.00) PESOS due on December 25, 1998 with a 12% interest per annum or 1% interest per month until such time that the said amount shall have been fully

paid.

No pronouncement as to costs.

SO ORDERED.[8]

On March 26, 2003, Jocelyn filed an Earnest Motion for Reconsideration,[9] which was denied by the trial court in its Order[10] dated April 29, 2003 stating that it finds no sufficient reason to disturb its March 10, 2003 Decision.

Ruling of the Court of Appeals

On appeal, Jocelyn asserts that she had made payments in the total amount of P778,000.00 for a principal amount of loan of only P290,000.00. What is appalling, according to Jocelyn, was that such payments covered only the interest because of the excessive, iniquitous, unconscionable and exorbitant imposition of the 6% to 7% monthly interest.

On August 24, 2005, the CA issued its Decision which provides:

WHEREFORE, premises considered, the Decision dated March 10, 2003 and the Order dated April 29, 2003, of the Regional Trial Court, 7[th] Judicial Region, Branch 22, Cebu City, in Civil Case No. CEB-22867 are hereby AFFIRMED. No pronouncement as to costs.

SO ORDERED.[11]

The Motion for Reconsideration[12] filed by Jocelyn was denied by the CA through its Resolution[13] dated March 8, 2006.

Issues

Hence, this petition raising the following issues:

I.

Whether the CA gravely erred when it held that the imposition of interest at the rate of six percent (6%) to seven percent (7%) is not contrary to law, morals, good customs, public order or public policy.

II.

Whether the CA gravely erred when it failed to declare that the "Acknowledgment of Debt" is an inexistent contract that is void from the very beginning pursuant to Article 1409 of the New Civil Code.

Petitioner's Arguments

Jocelyn posits that the CA erred when it held that the imposition of interest at the rates of 6% to 7% per month is not contrary to law, not unconscionable and not contrary to morals. She likewise contends that the CA erred in ruling that the "Acknowledgment of Debt" is valid and binding. According to Jocelyn, even assuming that the execution of said document was not attended with force, threat and intimidation, the same must nevertheless be declared null and void for being contrary to law and public policy. This is borne out by the fact that the payments in the total amount of P778,000.00 was applied to interest payment alone. This only proves that the transaction was iniquitous, excessive, oppressive and unconscionable.

Respondent's Arguments

On the other hand, Marilou would like this Court to consider the fact that the document referred to as "Acknowledgment of Debt" was executed in the safe surroundings of the office of Jocelyn and it was witnessed

by two of her staff. If at all there had been coercion, then Jocelyn could have easily prevented her staff from affixing their signatures to said document. In fact, petitioner had admitted that she was the one who went to the tables of her staff to let them sign the said document.

Our Ruling

The petition is without merit.

The 6% to 7% interest per month paid by Jocelyn is not excessive under the circumstances of this case.

In view of Central Bank Circular No. 905 s. 1982, which suspended the Usury Law ceiling on interest effective January 1, 1983, parties to a loan agreement have wide latitude to stipulate interest rates. Nevertheless, such stipulated interest rates may be declared as illegal if the same is unconscionable.[14] There is certainly nothing in said circular which grants lenders carte blanche authority to raise interest rates to levels which will either enslave their borrowers or lead to a hemorrhaging of their assets.[15] In fact, in *Medel v. Court of Appeals*,[16] we annulled a stipulated 5.5% per month or 66% per annum interest with additional service charge of 2% per annum and penalty charge of 1% per month on a P500,000.00 loan for being excessive, iniquitous, unconscionable and exorbitant.

In this case, however, we cannot consider the disputed 6% to 7% monthly interest rate to be iniquitous or unconscionable vis-à-vis the principle laid down in *Medel*. Noteworthy is the fact that in *Medel*, the defendant-spouses were never able to pay their indebtedness from the very beginning and when their obligations ballooned into a staggering sum, the creditors filed a collection case against them. In this case, there was no urgency of the need for money on the part of Jocelyn, the debtor, which compelled her to enter into said loan transactions. She used the money from the loans to make advance payments for prospective clients of educational plans offered by her employer. In this way, her sales production would increase, thereby entitling her to 50% rebate on her sales. This is the reason why she did not mind the 6% to 7% monthly interest. Notably too, a business transaction of this nature between Jocelyn and Marilou continued for more than five years. Jocelyn religiously paid the agreed amount of interest until she ordered for stop payment on some of the checks issued to Marilou. The checks were in fact sufficiently funded when she ordered the stop payment and then filed a case questioning the imposition of a 6% to 7% interest rate for being allegedly iniquitous or unconscionable and, hence, contrary to morals.

It was clearly shown that before Jocelyn availed of said loans, she knew fully well that the same carried with it an interest rate of 6% to 7% per month, yet she did not complain. In fact, when she availed of said loans, an advance interest of 6% to 7% was already deducted from the loan amount, yet she never uttered a word of protest.

After years of benefiting from the proceeds of the loans bearing an interest rate of 6% to 7% per month and paying for the same, Jocelyn cannot now go to court to have the said interest rate annulled on the ground that it is excessive, iniquitous, unconscionable, exorbitant, and absolutely revolting to the conscience of man. "This is so because among the maxims of equity are (1) he who seeks equity must do equity, and (2) he who comes into equity must come with clean hands. The latter is a frequently stated maxim which is also expressed in the principle that he who has done inequity shall not have equity. It signifies that a litigant may be denied relief by a court of equity on the ground that his conduct has been inequitable, unfair and dishonest, or fraudulent, or deceitful as to the controversy in issue." [17]

We are convinced that Jocelyn did not come to court for equitable relief with equity or with clean hands. It is patently clear from the above summary of the facts that the conduct of Jocelyn can by no means be characterized as nobly fair, just, and reasonable. This Court likewise notes certain acts of Jocelyn before filing the case with the

RTC. In September 1998, she requested Marilou not to deposit her checks as she can cover the checks only the following month. On the next month, Jocelyn again requested for another extension of one month. It turned out that she was only sweet-talking Marilou into believing that she had no money at that time. But as testified by Serapio Romarate,[18] an employee of the Bank of Commerce where Jocelyn is one of their clients, there was an available balance of P276,203.03 in the latter's account and yet she ordered for the stop payments of the seven checks which can actually be covered by the available funds in said account. She then caught Marilou by surprise when she surreptitiously filed a case for declaration of nullity of the document and for damages.

The document "Acknowledgment of Debt" is valid and binding.

Jocelyn seeks for the nullification of the document entitled "Acknowledgment of Debt" and wants this Court to declare that she is no longer indebted to Marilou in the amount of P290,000.00 as she had already paid a total amount of P778,000.00. She claims that said document is an inexistent contract that is void from the very beginning as clearly provided for by Article 1409[19] of the New Civil Code.

Jocelyn further claims that she signed the said document and issued the seven postdated checks because Marilou threatened to sue her for violation of BP Blg. 22.

Jocelyn is misguided. Even if there was indeed such threat made by Marilou, the same is not considered as threat that would vitiate consent. Article 1335 of the New Civil Code is very specific on this matter. It provides:

Art. 1335. There is violence when in order to wrest consent, serious or irresistible force is employed.

x x x x

A threat to enforce one's claim through competent authority, if the claim is just or legal, does not vitiate consent. (Emphasis supplied.)

Clearly, we cannot grant Jocelyn the relief she seeks.

As can be seen from the records of the case, Jocelyn has failed to prove her claim that she was made to sign the document "Acknowledgment of Debt" and draw the seven Bank of Commerce checks through force, threat and intimidation. As earlier stressed, said document was signed in the office of Jocelyn, a high ranking executive of CAP, and it was Jocelyn herself who went to the table of her two subordinates to procure their signatures as witnesses to the execution of said document. If indeed, she was forced to sign said document, then Jocelyn should have immediately taken the proper legal remedy. But she did not. Furthermore, it must be noted that after the execution of said document, Jocelyn honored the first three checks before filing the complaint with the RTC. If indeed she was forced she would never have made good on the first three checks.

It is provided, as one of the conclusive presumptions under Rule 131, Section 2(a), of the Rules of Court that, "Whenever a party has, by his own declaration, act or omission, intentionally and deliberately led another to believe a particular thing to be true, and to act upon such belief, he cannot, in any litigation arising out of such declaration, act or omission, be permitted to falsify it." This is known as the principle of estoppel.

"The essential elements of estoppel are: (1) conduct amounting to false representation or concealment of material facts or at least calculated to convey the impression that the facts are otherwise than, and inconsistent with, those which the party subsequently attempts to assert; (2) intent, or at least expectation, that this conduct shall be acted upon by, or at least influence, the other party; and, (3) knowledge, actual or constructive, of the real facts." [20]

Here, it is uncontested that Jocelyn had in fact signed the "Acknowledgment of Debt" in April 1998 and two of her subordinates served as witnesses to its execution, knowing fully well the nature of the contract she was entering into. Next, Jocelyn issued five checks in favor of Marilou representing renewal payment of her loans

amounting to P290,000.00. In June 1998, she asked to recall Check No. 0010761 in the amount of P30,000.00 and replaced the same with six checks, in staggered amounts. All these are indicia that Jocelyn treated the "Acknowledgment of Debt" as a valid and binding contract.

More significantly, Jocelyn already availed herself of the benefits of the "Acknowledgment of Debt," the validity of which she now impugns. As aptly found by the RTC and the CA, Jocelyn was making a business out of the loaned amounts. She was actually using the money to make advance payments for her prospective clients so that her sales production would increase. Accordingly, she did not mind the 6% to 7% interest per month as she was getting a 50% rebate on her sales.

Clearly, by her own acts, Jocelyn is estopped from impugning the validity of the "Acknowledgment of Debt." "[A] party to a contract cannot deny the validity thereof after enjoying its benefits without outrage to one's sense of justice and fairness." [21] "It is a long established doctrine that the law does not relieve a party from the effects of an unwise, foolish or disastrous contract, entered into with all the required formalities and with full awareness of what she was doing. Courts have no power to relieve parties from obligations voluntarily assumed, simply because their contracts turned out to be disastrous or unwise investments." [22]

WHEREFORE, the instant petition for review on certiorari is DENIED. The Decision of the Court of Appeals in CA-G.R. CV No. 79805 dated August 24, 2005 affirming the Decision dated March 10, 2003 of the Regional Trial Court, Branch 22, Cebu City, in Civil Case No. CEB-22867 is AFFIRMED.

SO ORDERED.

Corona, C.J., (Chairperson), Leonardo-De Castro, Abad,[*] and Perez, JJ., concur.

[*] In lieu of Associate Justice Presbitero J. Velasco, Jr., per Special Order No. 917 dated November 24, 2010.

[1] Rollo, pp. 3-26.

[2] CA rollo, pp. 65-75; penned by Associate Justice Mercedes Gozo-Dadole and concurred in by Associate Justices Isaias P. Dicdican and Ramon M. Bato, Jr.

[3] Records, pp. 341-349; penned by Judge Pampio A. Abarintos.

[4] Id. at 342.

[5] Id. at 8.

[6] Id. at 1-9.

[7] Id. at 12-24.

[8] Id. at 349.

[9] Id. at 350-354.

[10] Id. at 364-365.

[11] CA rollo, p.75.

[12] Id. at 76-90.

[13] Id. at 113-114.

[14] Ruiz v. Court of Appeals, 449 Phil. 419, 434 (2003).

[15] Spouses Almeda v. Court of Appeals, 326 Phil. 309, 319 (1996).

[16] 359 Phil. 820 (1998).

[17] University of the Philippines v. Catungal, Jr., 338 Phil. 728, 743-744 (1997).

[18] TSN, January 15, 2002, p. 8.

[19] Art. 1409. The following contracts are inexistent and void from the beginning:

(1) Those whose cause, object or purpose is contrary to law, morals, good customs, public order or public policy;

x x x x

[20] Philippine National Bank v. Court of Appeals, 367 Phil. 508, 516 (1999).

[21] Lim v. Queensland Tokyo Commodities, Inc., 424 Phil. 35, 45 (2002).

[22] Esguerra v. Court of Appeals, 335 Phil. 58, 69 (1997).

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