

HERMOJINA ESTORES, PETITIONER, VS. SPOUSES ARTURO AND LAURA SUPANGAN, RESPONDENTS.

G.R. No. 175139. April 18, 2012

Ponente: DEL CASTILLO, J.

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DEL CASTILLO, J.:

The only issue posed before us is the propriety of the imposition of interest and attorney's fees.

Assailed in this Petition for Review[1] filed under Rule 45 of the Rules of Court is the May 12, 2006 Decision[2] of the Court of Appeals (CA) in CA-G.R. CV No. 83123, the dispositive portion of which reads:

WHEREFORE, the appealed decision is MODIFIED. The rate of interest shall be six percent (6%) per annum, computed from September 27, 2000 until its full payment before finality of the judgment. If the adjudged principal and the interest (or any part thereof) remain unpaid thereafter, the interest rate shall be adjusted to twelve percent (12%) per annum, computed from the time the judgment becomes final and executory until it is fully satisfied. The award of attorney's fees is hereby reduced to P100,000.00. Costs against the defendants-appellants.

SO ORDERED.[3]

Also assailed is the August 31, 2006 Resolution[4] denying the motion for reconsideration.

Factual Antecedents

On October 3, 1993, petitioner Hermojina Estores and respondent-spouses Arturo and Laura Supangan entered into a Conditional Deed of Sale[5] whereby petitioner offered to sell, and respondent-spouses offered to buy, a parcel of land covered by Transfer Certificate of Title No. TCT No. 98720 located at Naic, Cavite for the sum of P4.7 million. The parties likewise stipulated, among others, to wit:

x x x x

- Vendor will secure approved clearance from DAR requirements of which are (sic):

- a) Letter request
- b) Title
- c) Tax Declaration
- d) Affidavit of Aggregate Landholding – Vendor/Vendee
- e) Certification from the Prov'l. Assessor's as to Landholdings of Vendor/Vendee
- f) Affidavit of Non-Tenancy
- g) Deed of Absolute Sale

x x x x

- Vendee shall be informed as to the status of DAR clearance within 10 days upon signing of the documents.

x x x x

- Regarding the house located within the perimeter of the subject [lot] owned by spouses [Magbago], said house shall be moved outside the perimeter of this subject property to the 300 sq. m. area allocated for [it]. Vendor hereby accepts the responsibility of seeing to it that such agreement is carried out before full payment of the sale is made by vendee.

- If and after the vendor has completed all necessary documents for registration of the title and the vendee fails to complete payment as per agreement, a forfeiture fee of 25% or downpayment, shall be applied. However, if the vendor fails to complete necessary documents within thirty days without any sufficient reason, or without informing the vendee of its status, vendee has the right to demand return of full amount of down payment.

x x x x

- As to the boundaries and partition of the lots (15,018 sq. m. and 300 sq. m.) Vendee shall be informed immediately of its approval by the LRC.

- The vendor assures the vendee of a peaceful transfer of ownership.

x x x x [6]

After almost seven years from the time of the execution of the contract and notwithstanding payment of P3.5 million on the part of respondent-spouses, petitioner still failed to comply with her obligation as expressly provided in paragraphs 4, 6, 7, 9 and 10 of the contract. Hence, in a letter[7] dated September 27, 2000, respondent-spouses demanded the return of the amount of P3.5 million within 15 days from receipt of the letter. In reply,[8] petitioner acknowledged receipt of the P3.5 million and promised to return the same within 120 days. Respondent-spouses were amenable to the proposal provided an interest of 12% compounded annually shall be imposed on the P3.5 million.[9] When petitioner still failed to return the amount despite demand, respondent-spouses were constrained to file a Complaint[10] for sum of money before the Regional Trial Court (RTC) of Malabon against herein petitioner as well as Roberto U. Arias (Arias) who allegedly acted as petitioner's agent. The case was docketed as Civil Case No. 3201-MN and raffled off to Branch 170. In their complaint, respondent-spouses prayed that petitioner and Arias be ordered to:

- Pay the principal amount of P3,500,000.00 plus interest of 12% compounded annually starting October 1, 1993 or an estimated amount of P8,558,591.65;

- Pay the following items of damages:

- a) Moral damages in the amount of P100,000.00;
- b) Actual damages in the amount of P100,000.00;
- c) Exemplary damages in the amount of P100,000.00;
- d) [Attorney's] fee in the amount of P50,000.00 plus 20% of recoverable amount from the [petitioner].
- e) [C]ost of suit.[11]

In their Answer with Counterclaim,[12] petitioner and Arias averred that they are willing to return the principal amount of P3.5 million but without any interest as the same was not agreed upon. In their Pre-Trial Brief,[13] they reiterated that the only remaining issue between the parties is the imposition of interest. They argued that since the Conditional Deed of Sale provided only for the return of the downpayment in case of breach, they cannot be held liable to pay legal interest as well.[14]

In its Pre-Trial Order[15] dated June 29, 2001, the RTC noted that "the parties agreed that the principal amount of 3.5 million pesos should be returned to the [respondent-spouses] by the [petitioner] and the issue remaining [is] whether x x x [respondent-spouses] are entitled to legal interest thereon, damages and attorney's fees." [16]

Trial ensued thereafter. After the presentation of the respondent-spouses' evidence, the trial court set the

presentation of Arias and petitioner's evidence on September 3, 2003.[17] However, despite several postponements, petitioner and Arias failed to appear hence they were deemed to have waived the presentation of their evidence. Consequently, the case was deemed submitted for decision.[18]

Ruling of the Regional Trial Court

On May 7, 2004, the RTC rendered its Decision[19] finding respondent-spouses entitled to interest but only at the rate of 6% per annum and not 12% as prayed by them.[20] It also found respondent-spouses entitled to attorney's fees as they were compelled to litigate to protect their interest.[21]

The dispositive portion of the RTC Decision reads:

WHEREFORE, premises considered, judgment is hereby rendered in favor of the [respondent-spouses] and ordering the [petitioner and Roberto Arias] to jointly and severally:

1. Pay [respondent-spouses] the principal amount of Three Million Five Hundred Thousand pesos (P3,500,000.00) with an interest of 6% compounded annually starting October 1, 1993 and attorney's fee in the amount of Fifty Thousand pesos (P50,000.00) plus 20% of the recoverable amount from the defendants and cost of the suit.

The Compulsory Counter Claim is hereby dismissed for lack of factual evidence.

SO ORDERED.[22]

Ruling of the Court of Appeals

Aggrieved, petitioner and Arias filed their notice of appeal.[23] The CA noted that the only issue submitted for its resolution is "whether it is proper to impose interest for an obligation that does not involve a loan or forbearance of money in the absence of stipulation of the parties." [24]

On May 12, 2006, the CA rendered the assailed Decision affirming the ruling of the RTC finding the imposition of 6% interest proper.[25] However, the same shall start to run only from September 27, 2000 when respondent-spouses formally demanded the return of their money and not from October 1993 when the contract was executed as held by the RTC. The CA also modified the RTC's ruling as regards the liability of Arias. It held that Arias could not be held solidarily liable with petitioner because he merely acted as agent of the latter. Moreover, there was no showing that he expressly bound himself to be personally liable or that he exceeded the limits of his authority. More importantly, there was even no showing that Arias was authorized to act as agent of petitioner.[26] Anent the award of attorney's fees, the CA found the award by the trial court (P50,000.00 plus 20% of the recoverable amount) excessive[27] and thus reduced the same to P100,000.00.[28]

The dispositive portion of the CA Decision reads:

WHEREFORE, the appealed decision is MODIFIED. The rate of interest shall be six percent (6%) per annum, computed from September 27, 2000 until its full payment before finality of the judgment. If the adjudged principal and the interest (or any part thereof) remain[s] unpaid thereafter, the interest rate shall be adjusted to twelve percent (12%) per annum, computed from the time the judgment becomes final and executory until it is fully satisfied. The award of attorney's fees is hereby reduced to P100,000.00. Costs against the [petitioner].

SO ORDERED.[29]

Petitioner moved for reconsideration which was denied in the August 31, 2006 Resolution of the CA.

Hence, this petition raising the sole issue of whether the imposition of interest and attorney's fees is proper.

Petitioner's Arguments

Petitioner insists that she is not bound to pay interest on the P3.5 million because the Conditional Deed of Sale only provided for the return of the downpayment in case of failure to comply with her obligations. Petitioner also argues that the award of attorney's fees in favor of the respondent-spouses is unwarranted because it cannot be said that the latter won over the former since the CA even sustained her contention that the imposition of 12% interest compounded annually is totally uncalled for.

Respondent-spouses' Arguments

Respondent-spouses aver that it is only fair that interest be imposed on the amount they paid considering that petitioner failed to return the amount upon demand and had been using the P3.5 million for her benefit. Moreover, it is undisputed that petitioner failed to perform her obligations to relocate the house outside the perimeter of the subject property and to complete the necessary documents. As regards the attorney's fees, they claim that they are entitled to the same because they were forced to litigate when petitioner unjustly withheld the amount. Besides, the amount awarded by the CA is even smaller compared to the filing fees they paid.

Our Ruling

The petition lacks merit.

Interest may be imposed even in the absence of stipulation in the contract.

We sustain the ruling of both the RTC and the CA that it is proper to impose interest notwithstanding the absence of stipulation in the contract. Article 2210 of the Civil Code expressly provides that "[i]nterest may, in the discretion of the court, be allowed upon damages awarded for breach of contract." In this case, there is no question that petitioner is legally obligated to return the P3.5 million because of her failure to fulfill the obligation under the Conditional Deed of Sale, despite demand. She has in fact admitted that the conditions were not fulfilled and that she was willing to return the full amount of P3.5 million but has not actually done so. Petitioner enjoyed the use of the money from the time it was given to her^[30] until now. Thus, she is already in default of her obligation from the date of demand, i.e., on September 27, 2000.

The interest at the rate of 12% is applicable in the instant case.

Absent the interest rate, the general rule is that the applicable rate of interest "shall be computed in accordance with the stipulation of the parties."^[31] Absent any stipulation, the applicable rate of interest shall be 12% per annum "when the obligation arises out of a loan or a forbearance of money, goods or credits. In other cases, it shall be six percent (6%)."^[32] In this case, the parties did not stipulate as to the applicable rate of interest. The only question remaining therefore is whether the 6% as provided under Article 2209 of the Civil Code, or 12% under Central Bank Circular No. 416, is due.

The contract involved in this case is admittedly not a loan but a Conditional Deed of Sale. However, the contract provides that the seller (petitioner) must return the payment made by the buyer (respondent-spouses) if the conditions are not fulfilled. There is no question that they have in fact, not been fulfilled as the seller (petitioner) has admitted this. Notwithstanding demand by the buyer (respondent-spouses), the seller (petitioner) has failed to return the money and

should be considered in default from the time that demand was made on September 27, 2000.

Even if the transaction involved a Conditional Deed of Sale, can the stipulation governing the return of the money be considered as a forbearance of money which required payment of interest at the rate of 12%? We believe so.

In *Crismina Garments, Inc. v. Court of Appeals*,^[33] “forbearance” was defined as a “contractual obligation of lender or creditor to refrain during a given period of time, from requiring the borrower or debtor to repay a loan or debt then due and payable.” This definition describes a loan where a debtor is given a period within which to pay a loan or debt. In such case, “forbearance of money, goods or credits” will have no distinct definition from a loan. We believe however, that the phrase “forbearance of money, goods or credits” is meant to have a separate meaning from a loan, otherwise there would have been no need to add that phrase as a loan is already sufficiently defined in the Civil Code.^[34] Forbearance of money, goods or credits should therefore refer to arrangements other than loan agreements, where a person acquiesces to the temporary use of his money, goods or credits pending happening of certain events or fulfillment of certain conditions. In this case, the respondent-spouses parted with their money even before the conditions were fulfilled. They have therefore allowed or granted forbearance to the seller (petitioner) to use their money pending fulfillment of the conditions. They were deprived of the use of their money for the period pending fulfillment of the conditions and when those conditions were breached, they are entitled not only to the return of the principal amount paid, but also to compensation for the use of their money. And the compensation for the use of their money, absent any stipulation, should be the same rate of legal interest applicable to a loan since the use or deprivation of funds is similar to a loan.

Petitioner’s unwarranted withholding of the money which rightfully pertains to respondent-spouses amounts to forbearance of money which can be considered as an involuntary loan. Thus, the applicable rate of interest is 12% per annum. In *Eastern Shipping Lines, Inc. v. Court of Appeals*,^[35] cited in *Crismina Garments, Inc. v. Court of Appeals*,^[36] the Court suggested the following guidelines:

- When an obligation, regardless of its source, i.e., law, contracts, quasi-contracts, delicts or quasi-delicts is breached, the contravenor can be held liable for damages. The provisions under Title XVIII on ‘Damages’ of the Civil Code govern in determining the measure of recoverable damages.
- 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.^[37]

Eastern Shipping Lines, Inc. v. Court of Appeals^[38] and its predecessor case, *Reformina v. Tongol*^[39] both involved torts cases and hence, there was no forbearance of money, goods, or credits. Further, the amount claimed

(i.e., damages) could not be established with reasonable certainty at the time the claim was made. Hence, we arrived at a different ruling in those cases.

Since the date of demand which is September 27, 2000 was satisfactorily established during trial, then the interest rate of 12% should be reckoned from said date of demand until the principal amount and the interest thereon is fully satisfied.

The award of attorney's fees is warranted.

Under Article 2208 of the Civil Code, attorney's fees may be recovered:

x x x x

(2) When the defendant's act or omission has compelled the plaintiff to litigate with third persons or to incur expenses to protect his interest;

x x x x

(11) In any other case where the court deems it just and equitable that attorney's fees and expenses of litigation should be recovered.

In all cases, the attorney's fees and expenses of litigation must be reasonable.

Considering the circumstances of the instant case, we find respondent-spouses entitled to recover attorney's fees. There is no doubt that they were forced to litigate to protect their interest, i.e., to recover their money. However, we find the amount of P50,000.00 more appropriate in line with the policy enunciated in Article 2208 of the Civil Code that the award of attorney's fees must always be reasonable.

WHEREFORE, the Petition for Review is DENIED. The May 12, 2006 Decision of the Court of Appeals in CA-G.R. CV No. 83123 is AFFIRMED with MODIFICATIONS that the rate of interest shall be twelve percent (12%) per annum, computed from September 27, 2000 until fully satisfied. The award of attorney's fees is further reduced to P50,000.00.

SO ORDERED.

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

[1] Rollo, pp. 11-18.

[2] CA rollo, pp. 82-104; penned by Associate Justice Jose L. Sabio, Jr. and concurred in by Associate Justices Rosalinda Asuncion-Vicente and Arturo G. Tayag.

[3] Id. at 103.

[4] Id. at 118.

[5] Records, pp. 8-9.

[6] Id.

[7] Id. at 11.

[8] See letter dated October 13, 2000; id. at 13.

[9] See letter dated October 20, 2000; id. at 22.

- [10] Id. at 2-7.
- [11] Id. at 6.
- [12] Id. at 18-20.
- [13] Id. at 40-42.
- [14] Id. at 40.
- [15] Id. at 80-81.
- [16] Id. at 81.
- [17] See Order dated July 30, 2003; id. at 120.
- [18] See Order dated November 21, 2003; id. at 181.
- [19] Id. at. 253-257; penned by Judge Benjamin T. Antonio.
- [20] Id. at 256.
- [21] Id.
- [22] Id. at 256-257.
- [23] Id. at 258.
- [24] CA rollo, p. 82.
- [25] Id. at 98.
- [26] Id. at 100-101.
- [27] Id. at 102.
- [28] Id. at 103.
- [29] Id.
- [30] P1,500,000 on October 1, 1993; P1,500,000 on April 14, 1994; P300,000 on October 7, 1998 and P200,000 on November 2, 1998; see records, p. 10.
- [31] *Crismina Garments, Inc. v. Court of Appeals*, 363 Phil. 701, 703 (1999).
- [32] Id.
- [33] Id. at 709. Emphasis supplied.
- [34] Article 1933 of the Civil Code provides:

Art. 1933. By the contract of loan, one of the parties delivers to another, either something not consumable so that the latter may use the same for a certain time and return it, in which case the contract is called a commodatum; or money or other consumable thing, upon the condition that the same amount of the same kind and quality shall be paid, in which case the contract is simply called a loan or mutuum.

Commodatum is essentially gratuitous.

Simple loan may be gratuitous or with a stipulation to pay interest.

In commodatum the bailor retains the ownerships of the thing loaned, while in simple loan, ownership passes

to the borrower.

[35] G.R. No. 97412, July 12, 1994, 234 SCRA 78.

[36] Supra note 31.

[37] Eastern Shipping Lines, Inc. v. Court of Appeals, supra note 35 at 95-97. Emphasis supplied.

[38] Id.

[39] 223 Phil. 472 (1985).

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