

**SPOUSES RAMON PATRON AND LUZVIMINDA PATRON,
PETITIONERS, VS. UNION BANK OF THE PHILIPPINES, THE
INTERNATIONAL CORPORATE BANK, AND THE QUEDAN AND RURAL
CREDIT GUARANTEE CORPORATI...**

G.R. NO. 177348. October 17, 2008

Ponente: CARPIO MORALES, J.

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CARPIO MORALES, J.:

The Spouses Ramon and Luzviminda Patron (petitioners), doing business under the name Ala Golden Grains Rice Mill, obtained on September 9, 1988 a P2,000,000 quedan loan from respondent International Corporate Bank (Interbank) which was guaranteed by respondent Quedan and Rural Credit Guarantee Corporation (Quedancor).[1]

Upon the maturity of the loan on March 8, 1989, it was renewed, to mature on September 4, 1989.[2] On the maturity of the loan on September 4, 1989, it was again renewed, to mature on March 3, 1990.[3]

In the meantime or on September 6, 1989, petitioners obtained an additional P1,500,000 loan from Interbank which was to mature on March 5, 1990.[4]

On March 1, 1990, petitioners again obtained an additional P1,500,000 loan and renewed their outstanding loans which had amounted to P3,500,000. Petitioners' total P5,000,000 loans were consolidated and covered by Promissory Note No. AGL90-0011 which was to mature on August 28, 1990.[5] The consolidated loans covered by this promissory note were renewed several times including that made on February 10, 1993 when Promissory Note No. AGL93-0004 was accomplished, to mature on August 9, 1993.[6]

On or before August 9, 1993, petitioners applied for the renewal of the loan covered thereby. Petitioners accomplished Promissory Note No. AGL93-0022 for P4,900,000 (the remaining balance after some payments were made), to mature on February 4, 1994.[7]

In the meantime, Interbank[8] was merged with respondent Union Bank of the Philippines (UBP).

On September 14, 1994, on UBP's demand, guarantor Quedancor paid P3,771,348.89. UBP thereafter demanded, by letter of September 30, 1994,[9] from petitioners the payment of the balance of their loan computed to be P2,645,889.84,[10] but they failed to heed the same.

Petitioners subsequently filed in November 1994 a complaint against respondents before the Regional Trial Court (RTC) of Iloilo City, for Cancellation of Documents, Declaration of Nullity, Injunction, and Damages. The complaint was docketed as Civil Case No. 22072.[11]

Petitioners claimed that in August 1993, they applied for the renewal of their quedan loan for P4,900,000, and after they had submitted the requirements therefor including the duly accomplished Promissory Note No. AGL93-0022, Interbank informed them that it (Interbank) had already been acquired by UBP which stopped,

disapproved, and/or cancelled all quedan loan applications; and that Interbank advised them that the documents bearing on their said August 1993 application for renewal of loan would be returned but they never received them, hence, they were surprised to receive a demand for payment of a P4,900,000 loan. They thus prayed as follows:

- Declaring as null and void and without legal effect the Quedan Loan application and its supporting papers, especially the promissory note and quedans as proposed collateral therefor, submitted by plaintiffs to defendant Interbank in August 1993;
- Declaring the plaintiffs not liable for any and all obligations arising from the said loan application and its supporting documents, which was in fact stopped, disapproved and/or cancelled by defendant banks, and whose proceeds plaintiffs never received;
- Directing the defendant banks to restore to plaintiffs the sum of P500,000.00 defendant Interbank appropriated for itself, with interest at the current inter-bank [sic] rate computed from date of said appropriation until full payment thereof to plaintiffs;
- Ordering the defendants, jointly and severally, to pay plaintiffs the sum of at least P500,000.00 as moral damages, P300,000.00 as attorney's fees, P50,000.00 as expenses of litigation, exemplary damages in such this Honorable Court may deem just and proper, and
- The costs of this litigation.[12] (Underscoring supplied)

UBP thereafter also filed a complaint on December 12, 1994 against petitioners before the RTC of Iloilo City, for collection of the remaining P2,645,889.84 unpaid balance of their loan, plus interests, expenses of litigation, and attorney's fees. The complaint was docketed as Civil Case No. 22105.[13]

Both cases were consolidated.[14]

UBP presented testimonial evidence that whenever petitioners renewed their loan on maturity, the proceeds of the renewed loan were applied to the maturing loan, hence, no actual cash was released to them.[15]

By Decision of March 23, 2004[16] rendered in both cases, Branch 36 of the Iloilo City RTC, answering in the affirmative the issue of whether there was a valid existing loan between petitioners and Interbank (before it was merged with UBP) which matured on August 9, 1993, rendered judgment in favor of respondents, disposing as follows:

WHEREFORE, judgment is hereby rendered as follows:

- Dismissing the complaint of plaintiffs in Civil Case No. 22072 and their counter-claim in Civil Case No. 22105;
- Dismissing the counter-claim of defendant QUEDANCOR in Civil Case No. 22105;
- Declaring that Spouses Luzviminda Patron and Ramon Patron have a loan obligation with the Interbank (now Union Bank) in the amount of P2,645,889.84;
- Ordering Spouses Luzviminda and Ramon Patron to pay Union Bank the sum of P2,645,889.84 plus 12% interest per annum computed from September 14, 1994 until the same is fully paid.

SO ORDERED.[17] (Underscoring supplied)

On appeal, the Court of Appeals, by Decision of September 11, 2006,[18] affirmed the RTC decision with modification on the rate of interest on petitioners' obligation, it noting as follows:

From a perusal of the facts as established and the record of the case, it must be pointed out that the interest stipulated by the parties with regard to PN No. AGL93-0022 [sic] dated August 9, 1993 is 16.5% per annum. However, in the computation of the Spouses Patron's liability for the period August 9, 1993 until September 30, 1994, as evidenced by Union Bank's statement of account as of September 30, 1994, the said bank applied an interest rate of 24% per annum.[19] (Emphasis in the original; underscoring supplied)

The Court notes that the appellate court, in affirming the decision of the trial court, erred in basing petitioners' liability on Promissory Note No. AGL93-0022 which was accomplished by them in support of their application for renewal of their loan covered by Promissory Note No. AGL-93-0004, but which application for renewal was disapproved.

The Court of Appeals disposed:

WHEREFORE, in view of the foregoing premises, judgment is hereby rendered by us DISMISSING the appeal filed in this case and AFFIRMING with MODIFICATION the decision dated March 23, 2004 of the Regional Trial Court, Branch 36, in Iloilo City Cases Nos. 22072 and 22105, such that the interest rate to be applied on PN No. AGL93-0022 for the period August 9, 1993 until September 30, 1994 is 16.5% per annum instead of 24% per annum.

SO ORDERED.[20] (Underscoring supplied)

Petitioners' Motion for Reconsideration[21] having been denied,[22] they filed the present Petition for Review on Certiorari[23] faulting the appellate court in:

(a)

. . . ignor[ing] the fact that respondent Union Bank has admitted in their pleadings and through their witnesses that the previous loan of the petitioners with the former Interbank were all paid and the [proceeds] of [the subject] Promissory Note No. AGL93-0022 were not released to petitioners;

(b)

. . . holding that the loans of petitioners with respondent Union Bank, guaranteed by QUEDANCOR were consolidated into a single loan and has been renewed for several times, despite the fact that the loan of appellants covered by PN No. AGL93-0022 in the amount of P4.9 Million is separate and distinct from the previous loan, considering that in QUEDAN LOAN, previous loan must be paid before new loan may be released, thus a borrower must borrow money from the outside sources and pay the quedan loan before his loan is renewed;

(c)

. . . ignor[ing] the fact that admission made in pleadings or trial or other proceedings need not be proved and are binding upon the parties making them who are not allowed to contradict them unless they may show clearly that the admissions were made thru palpable mistake;

(d)

. . . not declaring as null and void and without legal effect and canceling PN No. AGL93-0022 despite the fact that the loan of the petitioners with respondent bank was not released to them by the said bank;

(e)

. . . not ordering respondent Union Bank to restore to appellants the amount of Php500,000.00 with interest at the current rate, despite the fact that appellants have no obligation to pay the appellee bank[.][24] (Underscoring and emphasis in the original; italics supplied)

The petition fails.

That petitioners' application for renewal of loan was disapproved does not mean that they had been absolved from their obligation which matured on August 9, 1993, subject of Promissory Note No. AGL93-0004. Thus respondent UBP's witness Jonathan de Paz explained:

x x x x

ATTY. SALAS: x x x When you say this was not internally approved this loan application for which Exhibit "O" [-Promissory Note No. AGL93-0022] was signed did not materialize because it was not approved, is that correct?

WITNESS' ANSWER: The renewal did not materialize but however as I have said there was already a loan BEFORE it started [in] year 19[89] then it accumulated up to 5 million there was a payment of P100,000 prior to this promissory note. HOWEVER, AT THE TIME THAT WE HAVE THIS APPROVED, THE RENEWAL . . . WAS DISAPPROVED BUT IT DOESN'T MEAN THAT THEY DON'T HAVE AN EXISTING LOAN.

ATTY. SALAS: I'm not asking about the existing loan. I'm asking you about this promissory note because the loan for which the promissory note, Exhibit "O" was not approved necessarily no money came out of that disapproved loan?

WITNESS' ANSWER: There is no really money out of this because it is just a payment. As I have said before this is just a renewal in reality there's an exchange of paper. The matured promissory note will be given to them in exchange of the signed promissory note, this one. Actually there was no money out because what has been money

out...it was to be dated back to the original promissory note, the first PN 198[9] and some succeeding increase[s] of the renewal which in total is amounted to P5 million then there was a payment of P100,000.00.

COURT: But you are now very clear that Exhibit "O" which is a renewal of a promissory note marked as Exhibit "L" was not approved?

WITNESS' ANSWER: Internally, your Honor.

COURT: What do you mean by that?

WITNESS' ANSWER: The common parlance of the bank if a loan is disapproved and if it is a renewal then our duty now is to collect. It means to say that this renewal has not been approved to them so we are duty bound to collect this one as it is matured already.[25] (Emphasis, capitalization and underscoring supplied)

Petitioner Ramon Patron's letter to UBP dated January 31, 1994 appealing for a condonation and/or reduction of the penalty charges of 2% per annum on the promissory note for P4,900,000 which matured on August 9, 1993 and requesting a restructuring of said loan,[26] as well as petitioners' counsel's letter to UBP dated January 10, 1994 seeking clarification on "x x x why [Ramon Patron] should be liable for this additional 2% a month beginning August 9, 1993, when the note falls due only on February 4, 1994,"[27] should dissipate any doubts on, and unquestionably reflect the admission by petitioners of, their liability to respondent UBP.

Thus, petitioners' obligation under Promissory Note No. AGL93-0004 to UBP stands. However, a recomputation of the amount which they owe UBP is in order.

As earlier mentioned, the Court of Appeals erred in basing petitioners' liability on Promissory Note No. AGL93-0022 which was accomplished by them in support of the August 1993 application for renewal of loan but which was disapproved. Petitioners' liability should be based on Promissory Note No. AGL93-0004, which stipulates an interest of 23% per annum, and that "interest not paid when due shall be added to and constitute a

part of the principal and likewise bear interest at the same rate." [28] This Court finds such interest rate unconscionable, however, and reduces it to 12% per annum. [29] The monthly penalty charge of 2% of the amount due and demandable is, likewise, under the circumstances attendant to this case, unconscionable, considering that partial payments had been made on the principal. [30] Thus, in *Palmares v. Court of Appeals*, [31] this Court, citing its earlier minute resolution of May 16, 1994 in G.R. No. 112614, eliminated the penalty charge altogether on the ground that:

Upon the matter of penalty interest, we agree with the Court of Appeals that the economic impact of the penalty interest of three (3%) per month of the total amount due but unpaid should be equitably reduced. The purpose for which the penalty interest is intended - that is, to punish the obligor - will have been sufficiently served by the effects of compounded interest. Under the exceptional circumstances in the case at bar x x x the penalty stipulated in the parties' promissory note is iniquitous and unconscionable and may be equitably reduced further by eliminating such penalty interest altogether. [32]

The penalty charge of 2% per month should thus be eliminated. Petitioners' liability stands then at P1,634,464.44. Following *Eastern Shipping Lines, Inc. v. Court of Appeals*, [33] this amount shall earn 12% interest per annum from the time of extrajudicial demand on September 30, 1994 until it is fully paid.

In view of the stipulation in Promissory Note No. AGL93-0004 providing for the payment of attorney's fees equivalent to 10% of the amount due and demandable, this Court awards P163,446.44 to UBP as attorney's fees.

WHEREFORE, the Decision of the Court of Appeals dated September 11, 2006 is AFFIRMED with MODIFICATION. The interest rate in Promissory Note No. AGL93-0004 is reduced to 12% per annum, and the penalty charge is deleted, thus fixing the liability of the petitioner-spouses Ramon and Luzviminda Patron at P1,634,464.44 to bear interest of 12% per annum from the time of extrajudicial demand on September 30, 1994 until it is fully paid. In addition, the petitioner-spouses are ordered to pay P163,446.44 as attorney's fees.

Costs against petitioners.

SO ORDERED.

Quisumbing, (Chairperson), Tinga, Velasco, Jr., and Brion, JJ., Concur.

[1] Exhibit "B," records of Civil Case No. 22072, p. 298.

[2] Exhibit "C," id. at 299; TSN, June 28, 2002, pp. 15-18.

[3] Exhibit "D," id. at 300; id. at 18-21.

[4] Exhibit "E," id. at 301; id. at 22-25.

[5] Exhibit "F," id. at 302; id. at 25-28.

[6] Exhibits "G"- "N," id. at 303-310.

[7] Exhibit "O," id. at 311.

[8] Exhibit "A," id. at 295-297.

[9] Exhibit "R," id. at 314-315.

[10] Ibid.

[11] Id. at 1-8.

[12] Id. at 7.

[13] Records of Civil Case No. 22105, pp. 1-5.

[14] Records of Civil Case No. 22072, pp. 151-152.

[15] TSN, June 28, 2002, pp. 23, 26; TSN, May 8, 2003, p. 64.

[16] Records of Civil Case No. 22105, pp. 557-581; records of Civil Case No. 22072, pp. 423-447.

[17] Records of Civil Case No. 22105, p. 581.

[18] CA rollo, pp. 177-179. Penned by Justice Isaias P. Dicdican, with the concurrence of Associate Justices Romeo F. Barza and Priscilla Baltazar-Padilla.

[19] Id. at 177.

[20] Id. at 178-179.

[21] Id. at 180-192.

[22] Id. at 200-203.

[23] Rollo, pp. 9-28.

[24] Id. at 17-18.

[25] TSN, May 8, 2003, pp. 60-65.

[26] Exhibit "P," records of Civil Case No. 22072, p. 312.

[27] Referring to Promissory Note No. AGL93-0022 which would have covered the renewed loan but the application for which was disapproved. Exhibit "Q," id. at 313.

[28] Exhibit "N," id. at 310.

[29] Vide Trade & Investment Development Corporation v. Roblett Industrial Construction Corp., G.R. No. 139290, May 19, 2006, 490 SCRA 1, 7-8.

[30] Vide Civil Code, Article 1229.

[31] *Palmares v. Court of Appeals*, 351 Phil. 664 (1998).

[32] Id. at 690-691.

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

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