# ARTHUR F. MENCHAVEZ, PETITIONER, VS. MARLYN M. BERMUDEZ, RESPONDENT.

*G.R. No. 185368. October 11, 2012*

Ponente: VELASCO JR., J.

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**VELASCO JR., J.:**

This is a Petition for Review on Certiorari under Rule 45, questioning the Decision[1] of the Court of Appeals (CA) dated May 30, 2008 in CA-G.R. SP No. 99143, and the CA Resolution dated November 7, 2008, denying petitioner's Motion for Reconsideration of the Decision.

The facts of the case are as follows:

Petitioner Arthur F. Menchavez and respondent Marlyn M. Bermudez entered on November 17, 1993 into a loan agreement, covering the amount of PhP 500,000, with interest fixed at 5% per month.[2] Respondent executed a promissory note, which reads as follows:

> P500000. – 17 November 1993
>
> For value received I promise to pay ARTHUR F. MENCHAVEZ or order the sum of pesos five hundred thousand on or before Dec. 17, 1993 with interest of 5% per month.
>
> I acknowledge receipt of BPI Check 60965.
>
> MARLYN M. BERMUDEZ[3]

She then issued Prudential Bank Check No. 031994, to mature on December 17, 1993, in favor of petitioner, but with a request that petitioner not present the check for payment on its maturity date.[4] Respondent replaced Check No. 031994 with five postdated Prudential Bank checks totaling PhP 565,000, as follows: (1) Check No. 039198 dated April 17, 1994 for PhP 125,000; (2) Check No. 039199 dated May 17, 1994 for PhP 120,000; (3) Check No. 039200 dated June 17, 1994 for PhP 115,000; (4) Check No. 039201 dated July 17, 1994 for PhP 110,000; and (5) Check No. 039202 dated August 17, 1994 for PhP 105,000.[5] Four of the checks were cleared and fully encashed when presented for payment, covering the sum of PhP 465,000. The July 17, 1994 check, while dishonored, was partially paid by respondent with a replacement check for PhP 110,000 issued on June 12, 1995.[6]

Petitioner alleged entering into a verbal compromise agreement with respondent regarding the delay in payment and the accumulated interest. Under the agreement, respondent would deliver 11 postdated Prudential Bank checks as payment. When presented for payment, eight (8) of these checks were dishonored for the reason, "Drawn against Insufficient Funds."[7]

Nine criminal informations were filed against respondent Marlyn M. Bermudez before the Metropolitan Trial Court (MeTC) in Makati City, each charging her with violations of Batas Pambansa Blg. 22, or the Bouncing Checks Law, raffled off to the MeTC, Branch 64 as Criminal Case Nos. 306361 to 306369.[8] Eight counts

covered the dishonored checks issued pursuant to the compromise agreement, while the ninth covered the adverted check issued on July 17, 1994. The checks involved in the charges were:

(a) Check No. 0000029595 dated March 31, 1997 for PhP 20,000;
(b) Check No. 0000029594 dated March 4, 1997 for PhP 20,000;
(c) Check No. 0000029592 dated December 17, 1996 for PhP 50,000;
(d) Check No. 0000029598 dated June 30, 1997 for PhP 20,000;
(e) Check No. 0000029597 dated June 3, 1997 for PhP 20,000.00;
(f) Check No. 0000029596 dated April 30, 1997 for PhP 20,000.00;
(g) Check No. 0000029602 dated November 4, 1997 for PhP 20,000;
(h) Check No. 0000029601 dated September 30, 1997 for PhP 20,000; and
(i) Check No. 039201 dated July 17, 1994 for PhP 110,000;

which were issued and drawn by respondent against the account of FLB Construction Corporation at Prudential Bank, Makati Branch, payable to petitioner, covering the total sum of PhP 300,000. These checks were dishonored by the drawee bank upon presentment for payment on their respective maturity dates for the reason, "Drawn Against Insufficient Funds."[9]

The Ruling of the MeTC

Respondent raised the defense of payment, and proved paying petitioner the sum of PhP 925,000, or PhP 425,000 over the PhP 500,000 loan. The amount of PhP 925,000.00 was acknowledged by petitioner in the statement of account which he prepared, wherein PhP 624,344 was credited to payment of interest, and PhP 300,656 was credited to payment of the principal.[10]

The MeTC acquitted respondent of the charges against her, the dispositive portion of the decision reading as follows:

> WHEREFORE, in view of the foregoing premises, for failure to prove the guilt of the accused beyond reasonable doubt, MARILYN BERMUDEZ y MELY is hereby ACQUITTED in all nine (9) counts on charge of Violation of Batas Pambansa Blg. 22.
>
> No costs.
>
> SO ORDERED.[11]

Petitioner then brought the matter on appeal to the Regional Trial Court (RTC), Branch 143 in Makati City, appealing the civil aspect of the cases. The cases were docketed as Crim. Case Nos. 06-966 to 06-974.

The Ruling of the RTC

In a Decision dated November 5, 2006, the RTC held that the PhP 425,000 excess payment had not fully settled the respondent's obligations to the petitioner. It found that no evidence was presented as to the payment on the eight checks covering the amount of PhP 190,000 in the compromise agreement, less partial payment of PhP 25,000. In fine, a total of PhP 165,000 remains unpaid.[12] However, the 5% monthly interest stipulated in the loan agreement could not be applied, as, according to the RTC, there was no written agreement; thus, the rate of 12% per annum would be used.[13]

The dispositive portion of the RTC Decision reads as follows:

> WHEREFORE PREMISES CONSIDERED, the Appeal filed by complainant-appellant is partially granted. The Decision appealed from is modified, ordering accused-appellee Marilyn M. Bermudez to pay complainant-appellant the amount of P165,000.00 as civil liability with legal interest at the rate of 12% per annum to be reckoned from October 6, 2000.


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SO ORDERED.[14]

The Ruling of the CA

Respondent then raised the matter to the CA, on the issue of whether petitioner Menchavez could still demand payment on the original loan of PhP 500,000 despite the payment by respondent of the total amount of PhP 925,000.

The CA found that petitioner had expressly admitted in a Statement of Account, prepared under his supervision, that respondent's payments had already covered the principal loan of PhP 500,000, and that he had also received excess payment in the amount of PhP 425,000, before the criminal charges were filed.[15]

The CA did not agree with the RTC that the issuance of the subject checks resulted from the compromise agreement, and not from the loan transaction between petitioner and respondent. It held that the compromise agreement could not be detached from and taken independently of the principal loan. It further held that the compromise agreement bound respondent to pay an exorbitant and unconscionable amount in interest and charges, and that further, the principal loan had already been paid, with the sum of PhP 425,000 added by way of interest at the rate of 5% per month or 60% per annum, and that courts could reduce liquidated damages, if these are iniquitous or unconscionable, and thus contrary to morals.[16]

The fallo of the CA Decision reads:

> WHEREFORE, premises considered, the Petition for Review is GRANTED, and accordingly, the assailed November 5, 2006 Decision and April 7, 2007 Order of the RTC are hereby REVERSED and SET ASIDE.
>
> SO ORDERED.[17]

Thus, petitioner brought the matter to this Court.

Grounds in Support of Petition

> I
>
> RESPONDENT'S OBLIGATION BASED ON THE COMPROMISE AGREEMENT IS SEPARATE AND INDEPENDENT FROM HER ORIGINAL LOAN OBLIGATION.
>
> II
>
> THE CA'S RULINGS WERE BASED ON MISAPPREHENSION OF FACTS – ALTHOUGH PAYMENT WAS MADE, RESPONDENT WAS FAR FROM COMPLETELY SATISFYING HER OBLIGATION TO PETITIONER.
>
> III
>
> RESPONDENT VOLUNTARILY SIGNED A PROMISSORY NOTE AND VOLUNTARILY AGREED TO PAY 5% INTEREST PER MONTH.[18]

The Ruling of this Court
The petition is without merit.

Petitioner argues that the compromise agreement created an obligation separate and distinct from the original loan, for which respondent is now liable. It is undeniable that the compromise agreement is wholly intertwined with the original loan agreement, to the extent that this compromise agreement was entered into to fulfill respondent's payment on the original obligation, without which the compromise agreement would not have existed.


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By stating that the compromise agreement and the original loan transaction are separate and distinct, petitioner would now attempt to exact payment on both. This goes against the very purpose of the parties entering into a compromise agreement, which was to extinguish the obligation under the loan. Petitioner may not seek the enforcement of both the compromise agreement and payment of the loan, even in the event that the compromise agreement remains unfulfilled. It is beyond cavil that if a party fails or refuses to abide by a compromise agreement, the other party may either enforce the compromise or regard it as rescinded and insist upon his original demand.[19] It cannot, thus, be argued that there are two separate validly subsisting obligations to be fulfilled by respondent under both the compromise agreement and the original loan transaction.

To allow petitioner to recover under the terms of the compromise agreement and to further seek enforcement of the original loan transaction would constitute unjust enrichment. The compromise agreement was entered into precisely to extinguish the obligation under the loan transaction, not to create two sources of obligation for respondent. There is unjust enrichment under Article 22 of the Civil Code when (1) a person is unjustly benefited; and (2) such benefit is derived at the expense of or with damages to another.[20] Since respondent only entered into the compromise agreement to commit to payment of the original loan, petitioner cannot separate the two and seek payment of both, especially as he has already recovered the amount of the original loan.

The second and third issues raised by petitioner are interrelated and shall be discussed jointly.

Petitioner's claim that the payment made by respondent did not extinguish the obligation is based on his assessment that it is the rate of 5% per month which should be the basis of computation. Furthermore, petitioner argues that respondent voluntarily agreed to the interest rate of 5% per month.

These arguments fail to convince this Court.

Petitioner seeks to benefit from a 60% per annum rate of interest. This cannot be countenanced.

Castro v. Tan[21] is instructive. Petitioners in that case also argued that lender and borrower could validly agree on any interest rate for loans, and that the parties had voluntarily agreed upon the stipulated rate of interest. The Court held in Castro:

> While we agree with petitioners that parties to a loan agreement have wide latitude to stipulate on any interest rate in view of the Central Bank Circular No. 905 s. 1982 which suspended the Usury Law ceiling on interest effective January 1, 1983, it is also worth stressing that interest rates whenever unconscionable may still be declared illegal. There is certainly nothing in said circular which grants lenders carte blanche authority to raise interest rates to levels which either enslave their borrowers or lead to a hemorrhaging of their assets.[22]

The Court, in said case, tagged the 5% monthly interest rate agreed upon as "excessive, iniquitous, unconscionable and exorbitant, contrary to morals, and the law."[23] And instead of allowing recovery at the stipulated rate, the Court, in Castro, imposed the legal interest of 12% per annum. We need not unsettle the principle we had affirmed in a plethora of cases that stipulated interest rates of 3% per month and higher are excessive, iniquitous, unconscionable, and exorbitant.[24]

In the present case, the CA scrutinized the Statement of Account[25] prepared by petitioner, wherein it showed that respondent had already paid PhP 925,000, or PhP 425,000 over the PhP 500,000 loan, and treated it as an admission by petitioner. The original obligation of PhP 500,000 had already been satisfied, and the PhP 425,000 would be treated as interest paid, even at the iniquitous rate of 60% per annum.

We agree with the CA that petitioner has been fully paid.

In the Statement of Account prepared by petitioner, which he said covered the period from November 17, 1993 to

January 17, 2001, respondent made the following payments:

(a) PhP 25,000 on February 1, 1994;
(b) PhP 25,000 on February 23, 1994;
(c) PhP 25,000 on March 28, 1994;
(d) PhP 125,000 on April 17, 1994;
(e) PhP 120,000 on June 3, 1994;
(f) PhP 115,000 on August 1, 1994;
(g) PhP 105,000 on October 23, 1994;
(h) PhP 110,000 on June 15, 1995;
(i) PhP 25,000 on March 5, 1997;
(j) PhP 20,000 on May 5, 1997;
(k) PhP 20,000 on August 2, 1997;
(l) PhP 20,000 on October 22, 1997;
(m) PhP 20,000 on December 19, 1997;
(n) PhP 50,000 on January 31, 2000;
(o) PhP 30,000 on March 29, 2000;
(p) PhP 30,000 on May 3, 2000;
(q) PhP 30,000 on July 5, 2000;
(r) PhP 30,000 on July 31, 2000.[26]

Totaling the amounts in the Statement of Account results in the sum of PhP 925,000, which petitioner admits that respondent has already paid. But for him, it is still a contentious matter as he seeks to enforce the 5% per month interest rate, and would, thus, claim that he has not been fully paid. As it has been ruled that the 5% per month interest rate is null and void, petitioner cannot recover the grossly inflated amounts listed in the Statement of Account he prepared. Petitioner does not contest the amounts in the Statement of Account he prepared, only the import, as in his Statement of Account he computes for interest based on the 5% per month interest rate. The Statement of Account is evidence that he has already been paid the PhP 500,000 subject of the original loan agreement, and has benefited further in the amount of PhP 425,000, and, thus, must not be allowed to recover further.

Parties may be free to contract and stipulate as they see fit, but that is not an absolute freedom. Art. 1306 of the Civil Code provides, “The contracting parties may establish such stipulations, clauses, terms and conditions as they may deem convenient, provided they are not contrary to law, morals, good customs, public order, or public policy.” While petitioner harps on the voluntariness with which the parties agreed upon the 5% per month interest rate, voluntariness does not make the stipulation on interest valid. The 5% per month, or 60% per annum, rate of interest is, indeed, iniquitous, and must be struck down. Petitioner has been sufficiently compensated for the loan and the interest earned, and cannot be allowed to further recover on an interest rate which is unconscionable. Since the stipulation on the interest rate is void, it is as if there was no express contract on said interest rate. Hence, courts may reduce the interest rate as reason and equity demand.[27]

WHEREFORE, the petition is DENIED. The CA’s Decision dated May 30, 2008 and Resolution dated November 7, 2008 in CA-G.R. SP No. 99143 are hereby AFFIRMED.

Costs against petitioner.

SO ORDERED.

Peralta, Abad, Perez,[*] and Mendoza, JJ., concur.


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[*] Additional member per Special Order No. 1299 dated August 28, 2012.

[1] Penned by Associate Justice Rosmari D. Carandang and concurrned in by Associate Justices Portia Aliño-Hormachuelos and Pampio A. Abarintos.

[2] Rollo, p. 62.

[3] Id. at 121.

[4] Id.

[5] Id. at 62-63.

[6] Id. at 63.

[7] Id.

[8] Id. at 61.

[9] Id. at 50.

[10] Id. at 130.

[11] Id. at 64. Penned by Judge Dina Pestaño Teves.

[12] Id. at 54.

[13] Id. at 55.

[14] Id. Penned by Judge Zenaida T. Galapate-Laguilles (now a member of the CA).

[15] Id. at 66.

[16] Id. at 68.

[17] Id. at 69.

[18] Id. at 24-25.

[19] Diamond Builders Conglomeration v. Country Bankers Insurance Corporation, G.R. No. 171820, December 13, 2007, 540 SCRA 194, 207.

[20] H.L. Carlos Construction, Inc. v. Marina Properties Corporation, G.R. No. 147614, January 29, 2004, 421 SCRA 428, 437.

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

[22] Id. at 237-238.

[23] Id. at 238.

[24] Macalinao v. Bank of the Philippine Islands, G.R. No. 175490, September 17, 2009, 600 SCRA 67, 77.

[25] Rollo, pp. 128-130.

[26] Id.

[27] Macalinao v. Bank of the Philippine Islands, supra note 24.


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