

**ANCHOR SAVINGS BANK (NOW EQUICOM SAVINGS BANK),
PETITIONER, VS. PINZMAN REALTY AND DEVELOPMENT
CORPORATION, MARYLIN MAÑALAC AND RENATO GONZALES,
RESPONDENTS.**

G.R. No. 192304. August 13, 2014

Ponente: VILLARAMA, JR., J.

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VILLARAMA, JR., J.:

Before us is a petition for review on certiorari assailing the Decision[1] dated September 11, 2009 and Resolution[2] dated May 17, 2010 of the Court of Appeals (CA) in CA-G.R. CV No. 89420. The CA had reversed and set aside the Decision[3] dated March 16, 2007 of the Regional Trial Court (RTC), Branch 147 of Makati City, in Civil Case No. 00-1094.

The facts, as culled from the records, follow:

Sometime in December 1997, the private respondents obtained a loan from the petitioner in the amount of P3,000,000 secured by a real estate mortgage over parcels of land located in Cubao, Quezon City which were registered in the name of herein private respondent Marylin Mañalac. Private respondent Mañalac executed a Promissory Note[4] and Disclosure Statement[5] in favor of the petitioner in the total amount of P3,308,447.74 which amount already included payment for three months interest. The loan documents stipulated that the first installment shall be for P148,640 and will be due on December 26, 1997, the second installment will be for the same amount and shall be due on January 26, 1998, and the third installment will be for P3,011,167.74 and will be due on February 26, 1998. Moreover, the Promissory Note and Disclosure Statement imposed a monthly 5% late-payment charge, 25% attorney's fees, and 25% liquidated damages in case of unpaid installments on the part of private respondent Mañalac.

On December 3, 1997, the proceeds of the loan were released to private respondent Mañalac who then issued three checks for the payment of monthly installments to the petitioner. The first check was for P144,000 and was for the first installment due on December 26, 1997. The second check in the same amount was for the second installment due on January 26, 1998. Finally, the third check in the amount of P3,300,000 corresponded to the last installment due on February 26, 1998. However, among the three checks, only the first one was cleared for payment, and the private respondents incurred an outstanding balance of P3,012,252.32 which they failed to settle. Private respondent Mañalac continued her correspondence with the petitioner through its Vice President to ask for an update on their account.[6]

Subsequently, the private respondents received a Second Notice of Extrajudicial Sale[7] for the satisfaction of an obligation, which as of October 15, 1998 amounted to P4,577,269.42, excluding penalties, charges, attorney's fees and costs of foreclosure. On June 1, 1999, the assailed foreclosure sale was held where the petitioner emerged as the highest bidder of the disputed properties, and a Certificate of Sale[8] was issued in favor of the petitioner. Still, private respondent Mañalac allegedly tried to settle the loan but was surprised when petitioner

issued a Statement of Account[9] stating that as of October 29, 1999, Pinzman Realty owed the petitioner P12,525,673.44 computed as follows:

STATEMENT OF ACCOUNT
AS OF OCTOBER 29, 1999

PARTICULAR

PAYSYS METHOD

Principal Balance

3,012,525.32

Interest

2,026,062.38

Penalty Interest @ 60%

3,129,879.85

Forfeited Rebate

8,620.00

Litigation Expenses

158,595.41

Others

14,766.00

Sub-total

8,350,448.96

Attorney's fees

2,087,612.24

Liquidated Damages

2,087,612.24

Total Amount Due

12,525,673.44

As private respondent Mañalac failed to redeem the properties, ownership of the foreclosed properties was eventually consolidated in petitioner's name. Petitioner later succeeded in acquiring certificates of title over the disputed properties.

On September 6, 2000, private respondents filed a Complaint for the Annulment of Extrajudicial Foreclosure of Mortgaged Properties, Auction Sale, Certificate of Sale and Damages[10] against the petitioner before the RTC. The private respondents prayed for the nullification of the foreclosure sale alleging that the amount demanded in the Notice of Extrajudicial Sale was exorbitant and excessive. Specifically, instead of the amount of P4,577,269.42 as demanded therein, the private respondents contended that the proper amount should only be P3,825,907.16 if the balance of the loan is computed with interest at the rate of 3% reckoned from the date of last payment.

In its Decision dated March 16, 2007, the RTC dismissed the complaint and found that the private respondents did not question the compliance of the petitioner with the procedural requirements for extrajudicial foreclosure. Moreover, the RTC ruled that the private respondents did not take any measures to enjoin the foreclosure sale despite their knowledge of the alleged usurious interest charges.

On appeal, the CA reversed and set aside the court a quo, and held as follows:

WHEREFORE, the foregoing considered, the instant appeal is hereby GRANTED and the assailed Decision dated 16 March 2007 is REVERSED and SET ASIDE. Accordingly, the present complaint is hereby GRANTED and the Extra-judicial Foreclosure, Auction Sale, Certificate of Sale and Certificates of Title issued in favor of appellee bank are hereby ANNULLED, without prejudice to the right of the latter to re-institute foreclosure proceedings based on the recomputed amount of the unpaid loan as herein provided. No costs.

SO ORDERED.[11]

The CA declared that the loan agreement as embodied in the Promissory Note and Disclosure Statement failed to stipulate a rate of interest. Petitioner bank likewise admitted that there is no written agreement to prove that the parties agreed to the interest rate of 30.33% per annum on the loan. Thus, the CA held that petitioner erred in unilaterally imposing an interest rate of 30.33% on the unpaid portion of the loan. The CA held that said rate was excessive, iniquitous, unconscionable and blatantly contrary to law and morals. Further, the CA ruled that the imposition of such unlawful interest rate will nullify the foreclosure sale arising therefrom. However, this was without prejudice to the lender's right to recover the principal of the loan and the validity of the terms of the real estate mortgage. In particular, the CA affirmed the subsistence of the principal amount due without the unlawful interest rate. In its place, the CA imposed a legal interest rate of 12% per annum. Moreover, the CA annulled the previously held foreclosure sale, but upheld the right of the mortgagee to institute another foreclosure proceedings upon default of the mortgagor.

Thus, the petitioner filed the instant petition for review on certiorari raising the following issues:

I

WHETHER OR NOT ARTICLE 1956[12] OF THE CIVIL CODE REQUIRES THE RATE OF INTEREST TO BE STIPULATED; and

II

WHETHER OR NOT FORECLOSURE OF MORTGAGE WAS VALID.[13]

Essentially, the sole issue for our resolution is whether the imposition of usurious interest rates on a loan obligation secured by a real estate mortgage will result in the invalidity of the subsequent foreclosure sale of the mortgage.

Petitioner argues that the CA was under the mistaken belief that the failure to stipulate a rate of interest was equivalent to the failure to provide for the payment of interest. Thus, petitioner establishes a distinction between stipulation of interest rate and stipulation of interest. Petitioner further contends that while the Promissory Note and Disclosure Statement did not provide a specific interest rate, the parties still agreed to the payment of interest based on the tenor of the language used therein. This, petitioner stresses, militates against the ruling of the CA that there was a unilateral imposition of interest rate.

Petitioner further claims that the defect in the Second Notice of Extrajudicial Sale cannot affect the validity of the foreclosure sale. Based on case law, petitioner argues that discrepancies between the Notice of Foreclosure Sale and the actual indebtedness of the mortgagor will not result in the annulment of the foreclosure sale as long as the objectives of the notice are attained. Petitioner likewise argues that the action of the private respondents which was filed after the redemption period, was barred by laches.

On the other hand, private respondents claim that the imposition of interest rates and penalty charges by petitioner should be struck down as these were manifestly excessive, unreasonable, and unconscionable. Private respondents maintain that the CA correctly ruled that the foreclosure sale which arose from the enforcement of usurious interest rates and penalty charges should be nullified.

The petition lacks merit.

It is jurisprudential axiom that a foreclosure sale arising from a usurious mortgage cannot be given legal effect.[14] Relevantly, in *Heirs of Zoilo Espiritu v. Sps. Landrito*,[15] we struck down a foreclosure sale where the amount declared as mortgage indebtedness involved excessive, unreasonable, and unconscionable interest charges. In no uncertain terms, we ruled that a mortgagor cannot be legally compelled to pay for a grossly inflated loan:

Since the Spouses Landrito, the debtors in this case, were not given an opportunity to settle their debt, at the correct amount and without the iniquitous interest imposed, no foreclosure proceedings may be instituted. A judgment ordering a foreclosure sale is conditioned upon a finding on the correct amount of the unpaid obligation and the failure of the debtor to pay the said amount. In this case, it has not yet been shown that the Spouses Landrito had already failed to pay the correct amount of the debt and, therefore, a foreclosure sale cannot be conducted in order to answer for the unpaid debt. The foreclosure sale conducted upon their failure to pay P874,125 in 1990 should be nullified since the amount demanded as the outstanding loan was overstated; consequently it has not been shown that the mortgagors – the Spouses Landrito, have failed to pay their outstanding obligation. Moreover, if the proceeds of the sale together with its reasonable rates of interest were applied to the obligation, only a small part of its original loans would actually remain outstanding, but because of the unconscionable interest rates, the larger part corresponded to said excessive and iniquitous interest.[16]

Recently, in *Castro v. Tan*,[17] we affirmed the above doctrinal pronouncements as we also nullified a foreclosure proceeding where the amount demanded as outstanding loan was clearly overstated due to exorbitant interest rates.

In the case at bar, the unlawful interest charge which led to the demand for P4,577,269.42 as stated in the Notice

of Extrajudicial Sale resulted in the invalidity of the subsequent foreclosure sale held on June 1, 1999. The private respondents cannot be obliged to pay an inflated or overstated mortgage indebtedness on account of excessive interest charges without offending the basic tenets of due process and equity.

The argument of the petitioner that defects in the Notice of Sale cannot affect the validity of the foreclosure sale cannot be given credence. In relying on a long litany of cases, the petitioner failed to realize that the issue in those cases was the validity of the Notice of Sale per se. Meanwhile, in the present case, the issue is the validity of the foreclosure sale in view of the presence of usurious interest charges.

WHEREFORE, the petition for review on certiorari is hereby DENIED. The Decision dated September 11, 2009 and Resolution dated May 17, 2010 of the Court of Appeals in CA-G.R. CV No. 89420 are AFFIRMED.

With costs against petitioner.

SO ORDERED.

Sereno, C.J., Chairperson, Bersamin, Mendoza,[*] and Reyes, JJ., concur..

[*] Designated additional member per Special Order No. 1738 dated July 31, 2014.

[1] Rollo, pp. 28-38. Penned by Associate Justice Josefina Guevara-Salonga with Associate Justices Celia C. Librea-Leagogo and Priscilla J. Baltazar-Padilla concurring.

[2] Id. at 40-41.

[3] Id. at 49-54. Penned by Presiding Judge Maria Cristina J. Cornejo.

[4] Records, p. 6.

[5] Id. at 7.

[6] Rollo, pp. 29-30.

[7] Records, pp. 34-35. The Second Notice was dated April 28, 1999.

[8] Id. at 59-60.

[9] Id. at 36.

[10] Id. at 1-5.

[11] Rollo, pp. 37-38.

[12] Art. 1956. No interest shall be due unless it has been expressly stipulated in writing.

[13] Rollo, p. 14.

[14] See *Puerto v. Court of Appeals*, 432 Phil. 743, 759 (2002).

[15] 549 Phil. 180, 193 (2007).

[16] Id. at 194-195.

[17] G.R. No. 168940, November 24, 2009, 605 SCRA 231, 243-244.

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