

****Title:** Isla v. Estorga: A Philippine Supreme Court Ruling on Unconscionable Interest Rates and Attorney's Fees in a Real Estate Mortgage Loan Case**

****Facts:****

In December 2004, the Isla family (Catalina, Elizabeth, and Gilbert Isla) obtained a PHP 100,000 loan from Genevira P. Estorga, with a real estate mortgage on a property in Pasay City as a security. The loan, bearing a ten percent monthly interest, was set to be payable within six months to a year. Upon the Islas' failure to pay, a notarized loan agreement (Kasulatan ng Pautang) was executed in December 2005, but the Islas still did not comply. Following a demand letter in November 2006 from Estorga and the failure of the Islas to respond, Estorga filed a Petition for Judicial Foreclosure against the Islas, who argued that the interest rate was exorbitant and that they, not being the absolute owners of the mortgaged property, could not have mortgaged it. The case escalated from the Regional Trial Court (RTC) to the Court of Appeals (CA), where the RTC's decision to have the Islas pay the principal loan with interest and attorney's fees was affirmed, albeit with modifications regarding the interest rates and the foreclosure clause.

****Issues:****

1. Whether the CA erred in awarding a twelve percent annual interest on the principal obligation from the date of demand until full payment.
2. Whether the CA properly awarded attorney's fees to Estorga.

****Court's Decision:****

The Philippine Supreme Court partially granted the Islas' petition. It held:

1. The Court affirmed the imposition of a twelve percent per annum interest from the date of extrajudicial demand until the finality of the ruling, clarifying that the unconscionable ten percent per month interest rate stipulated previously was nullified, and instead, the legal rate at the time the loan was contracted was applied. Post-ruling, the legal interest was adjusted to six percent per annum until full payment.
2. The Court ruled that the award of attorney's fees was unjustified due to the lack of a clear and factual basis as required by law, leading to the deletion of this award in the CA's decision.

****Doctrine:****

The Supreme Court reiterated the doctrine allowing courts to equitably reduce interest rates deemed excessive, iniquitous, unconscionable, or exorbitant, and clarified the application of monetary versus compensatory interest, as well as stipulating how legal

interest rates apply when original rates are nullified for being unconscionable.

****Class Notes:****

1. ****Unconscionable Interest Rates:**** Courts have the authority to reduce interest rates determined to be unconscionable. The legal interest rate at the time the agreement was entered into applies if the stipulated rate is voided.
2. ****Monetary vs. Compensatory Interests:**** Monetary interest is based on a contract between parties, while compensatory interest is imposed by law for failure to pay a principal loan upon which demand is made.
3. ****Legal Interest Rates:**** When a contract fails to specify an interest rate, or the agreed rate is nullified, the prevailing legal interest rate at the time the agreement was executed applies. As of this case's context, it was twelve percent per annum, changing to six percent per annum after June 30, 2013, following BSP Circular No. 799.
4. ****Attorney's Fees:**** The award of attorney's fees requires factual, legal, and equitable justification explicitly stated in the decision's body, not just in the dispositive portion.

****Historical Background:****

This case highlights the judiciary's role in moderating contractual obligations to prevent unconscionable agreements and ensure fairness in financial transactions. The Supreme Court's adjustment of interest rates according to prevailing legal standards reflects its commitment to equity and justice in contractual disputes, demonstrating the dynamic interpretation of laws in the context of evolving economic conditions.