

FIRST DIVISION

[G.R. No. 208336, November 21, 2018]

**VILLA CRISTA MONTE REALTY & DEVELOPMENT CORPORATION,
PETITIONER, VS. EQUITABLE PCI BANK (NOW KNOWN AS
BANCO DE ORO UNIBANK, INC.), AND THE EX-OFFICIO SHERIFF
OF QUEZON CITY AND/OR HIS DEPUTY OR AUTHORIZED
REPRESENTATIVES, RESPONDENTS.**

D E C I S I O N

BERSAMIN, J.:

An escalation clause without a concomitant de-escalation clause is void and ineffectual for violating Presidential Decree No. 1684,^[1] otherwise known as *Amending Further Act No. 2655, As Amended, Otherwise Known as "The Usury Law,"* as well as the principle of mutuality of contracts unless the established facts and circumstances, as well as the admissions of the parties, indicate that the lender at times lowered the interest rates, or, at least, allowed the borrower the discretion to continue with the repriced rates.

Not all contracts of adhesion are invalid. Only a contract of adhesion in which one of the parties is shown to be the weaker as to have been imposed upon may be invalidated and set aside.

The Case

This appeal has been taken by the borrower (petitioner) to seek the review and reversal of the adverse decision promulgated on February 21, 2013,^[2] whereby the Court of Appeals (CA) affirmed the judgment rendered on April 7, 2009 by the Regional Trial Court (RTC), Branch 216, in Quezon City in Civil Case No. Q-01-43677.^[3]

Antecedents

The factual and procedural antecedents, as narrated by the CA, are the following:

Sometime in 1994, plaintiff-appellant *Villa Crista Monte Realty Corporation* was organized to engage in the business of real estate development. Soon after, it acquired from a certain Alfonso Lim the 80,000 square meters (8 hectares) parcel of land located at *Old Balara, Quezon City*, which land appellant intended to develop into a residential subdivision. After successfully putting up its clubhouse, known as the "*Tivoli Royale Country Clubhouse*," appellant Corporation later negotiated and eventually succeeded in purchasing the adjoining 13.5 hectares land, thereby consolidating its ownership over the 21.5 hectares of land[s].

In order to fully develop its subdivision project, appellant applied for and was granted a credit line of P80 Million by then Equitable Philippine Commercial International Bank (E-PCIB), now *Banco De Oro*. By way of security for the said credit line, appellant executed a *Real Estate Mortgage* over the 80,000 square meters of its properties (covered by TCT No. T-145652) with all the existing improvements thereon.

On August 5, 1995, appellant subdivided the parcel of land covered by TCT No. T-145652 into 174 lots, each with an average area of 340 square meters and each covered by a separate certificate of title.

Appellant subsequently applied for an additional P50 Million credit accommodation from E-PCIB to which the latter readily acceded. It being later established that the 41 lots, out of the 174 subdivided lots, would already be sufficient securities for the credit accommodation, appellant then asked for the release of the remaining 133 titles from the earlier mortgage. E-PCIB granted appellant's request on the condition that the real estate mortgage contract be amended to conform to the changes in the amount of the credit line and in the properties subject of the mortgage, to which condition appellant readily agreed.

Under its approved P130 Million credit line, appellant separately obtained the following amounts on various occasions from March 20, 1997 to August 15, 1997, *to wit*:

Date	Amount	Rate of Interest	Maturity Date
March 20, 1997	Php38,200,000.00	13.50%	March 13, 1998
March 26, 1997	4,000,000.00	13.50%	March 20, 1998
April 3, 1997	6,600,000.00	13.00%	March 27, 1998
April 6, 1997	8,500,000.00	13.00%	April 1, 1998
April 10, 1997	7,000,000.00	13.00%	April 3, 1998
April 14, 1997	12,500,000.00	13.00%	April 8, 1998
April 17, 1997	2,900,000.00	15.00%	April 10, 1998
June 28, 1997	2,700,000.00	15.00%	June 23, 1998
June 30, 1997	20,000,000.00	15.25%	June 28, 1998
July 4, 1997	2,000,000.00	15.25%	June 25, 1998
July 4, 1997	5,000,000.00	15.50%	June 29, 1998
July 5, 1997	7,500,000.00	15.50%	June 30, 1998
July 10,	7,000,000.00	15.50%	July 8, 1998

1997			
July 15, 1997	1,800,000.00	15.50%	July 8, 1998
August 15, 1997	4,000,000.00	24.00%	August 12, 1998

Each of the aforesaid amount was covered by a promissory note in the prescribed form of the E-PCIB.

Eventually, E-PCIB wrote several times to appellant apprising it of the increased rates in the interest to be imposed on its loans covered by the promissory notes. The increased rates ranged from 21% to 36% and were ostensibly anchored on the uniform provision in the promissory notes on monthly repricing.

Appellant reneged on paying its loan obligations amounting to P129,700,00.00, prompting E-PCIB to initiate foreclosure proceedings on the mortgaged properties. Thereafter, the respondent Sheriff scheduled the auction of the subdivision lots which led to appellant's filing of its initial complaint for the *nullification* of the promissory notes and the mortgage agreements with prayer for injunctive relief. Although the said auction sale was initially enjoined, the injunction was nonetheless lifted; and so, the auction sale proceeded where E-PCIB emerged as the highest bidder. This led to appellant's filing of the Supplemental Complaint with the RTC Quezon City assailing the said auction sale and the amount claimed therein (including the alleged unwarranted assessments and charges), as well as praying for the nullification of the titles that were consolidated in the name of E-PCIB. Appellant cited the following instances as its causes of action:

1. E-PCIB unilaterally made and imposed the increases in interest rates on appellant's loan without them being discussed and negotiated with, much less agreed upon by, appellant and, thus, invalid;
2. Since the Real Estate Mortgage and its amendment are but accessory to the loans evidenced by the Promissory Notes, which bore the unilaterally imposed exorbitant interest rates and, thus, contrary to law and public policy, the same (the accessory contracts) are likewise illegal and against public policy;
3. Despite the substantial payments already made by appellant, E-PCIB still insistently demanded for the payment of the loan obligation inclusive of the higher interest rates and penalty charges which it unilaterally imposed, warranting the issuance of a detailed accounting or Statement of Account. Instead of issuing said statement, though, E-PCIB prematurely initiated the foreclosure proceedings; and
4. Appellant claimed for reparation of damages as well as attorney's fees by reason of E-PCIB's alleged palpable

violation of the laws and the rights of appellant especially in imposing arbitrary, burdensome and oppressive interests.

In its Answer to appellant's Complaint, E-PCIB countered that appellant has no cause of action and that its complaint does not state any such cause either. E-PCIB underscored that appellant voluntarily and consciously agreed to the complained monthly re-pricing of interest as shown by appellant's affixing of its signature in all the promissory notes in due course, *i.e., with all the pertinent blanks duly filled-up*, and its acceptance of the loan proceeds. Accordingly, the said interest rates were then re-priced as agreed upon; and that the said re-pricing even started only on July 1997, although the original promissory notes were executed in 1996, and were only renewed in early 1997. E-PCIB stressed that appellant then not only accepted the stipulation on monthly re-pricing but also the new interest rates, as re-priced, by its payment of the corresponding adjusted interest rates until it later defaulted to pay even the interest rates to keep the loans current. Inasmuch as the dispute lies only on the rates of interests and no longer on the fact that appellant was already in default in its payment, E-PCIB argued that appellant failed to prove its right to an injunction. E-PCIB maintained that it merely complied with the provisions of the Promissory Notes.^[4]

On April 7, 2009, the RTC rendered judgment in favor of Equitable PCI Bank (E-PCIB), holding that the loan contracts between the parties were supported by several promissory notes, a fact admitted by no less than the petitioner's own President, Cresencio Tio (Tio);^[5] that Tio also testified that the documents included a rider dealing with the monthly repricing of the interest rates; that the protest allegedly made against the repricing was not established; that the plaintiff (petitioner herein) paid the adjusted interest rates; and that the evidence on record sustained the validity of the real estate mortgage and its amendment.^[6]

The RTC concluded that the extra-judicial foreclosure proceedings taken against the petitioner's mortgaged properties were valid; that the non inclusion in the notice of sale of the exact amount of the lawful charges did not prejudice the petitioner; and that the certificate of sale, the consolidation of title in the name of E-PCIB, and the corresponding issuance of the certificates of title in its name were also valid.^[7]

The petitioner appealed to the CA.

As stated, the CA promulgated its now assailed decision on February 21, 2013 affirming the judgment of the RTC. The CA observed that the petitioner had defaulted on its loan obligations, thereby triggering the foreclosure proceedings brought against it; that the only real issue to be resolved was whether or not the monthly repricing of the interest rates on the loans, which the petitioner claimed to have been unilaterally imposed by E PCIB,^[8] was valid; that the contracting parties were allowed to stipulate on any rate of interest on the loans by virtue of Resolution No. 224 and Central Bank Circular No. 905, which rendered the *Usury Law* ineffective; that nonetheless E-PCIB as the lender could not unilaterally impose increased interest rates because the parties had still to agree on the rate of interest to be applied to their transactions;^[9] that there was no proof showing that the petitioner had been coerced into agreeing to the terms and conditions of the loans,

or that it had been tricked into signing the promissory notes pertaining to the monthly repricing of the interest rates;^[10] that despite the insistence of the petitioner that the stipulation on the monthly repricing of interest rates was an adhesion, and that all the terms had been imposed by the respondent bank thereby limiting the petitioner's participation therein to the mere signing of the document, the monthly repricing was not necessarily invalid *per se*, for a contract of adhesion was just as binding as other contracts once the other party agreed to the terms; and that because the petitioner was fully aware of the contents of the promissory notes, the judgment of the RTC should be upheld.

The CA disposed:

WHEREFORE, the appeal is **DENIED**. The *Decision*, dated April 7, 2009, of the Regional Trial Court, Branch 216, Quezon City in *Civil Case No. Q-01-43677* is **AFFIRMED**.

SO ORDERED.^[11]

The petitioner sought reconsideration,^[12] but the CA denied its motion for that purpose on July 26, 2013.^[13]

Hence, this appeal.

Issues

The petitioner contends that the CA gravely erred in ruling:

- I. as valid the bank's repricing of the interest rates by citing the ruling in the case of Solid Bank Corp. vs. Permanent Homes Inc.
- II. that the promissory notes though contracts of adhesion bound petitioner, absent any proof of domination done by the bank to agree on the monthly repricing
- III. that the payments made by petitioner in excess of the original rate of interest should be credited to the principal has no basis under the factual circumstances^[14]

In short, did the CA commit reversible error when it affirmed the judgment of the RTC declaring as valid the promissory notes and the corresponding repricing of interest rates?

Ruling of the Court

The appeal lacks merit.

Both the trial and appellate courts were in unison in finding that the real estate mortgage and promissory notes were valid, as well as the subsequent foreclosure proceedings. We find no cogent reason to depart from their common findings, considering that the same are supported by the facts and applicable laws.

Inasmuch as the main issue under contention relates to the validity of the