

SECOND DIVISION

[G.R. No. 195166, July 08, 2015]

**SPOUSES SALVADOR ABELLA AND ALMA ABELLA, PETITIONERS,
VS. SPOUSES ROMEO ABELLA AND ANNIE ABELLA,
RESPONDENTS.**

DECISION

LEONEN, J.:

This resolves a Petition for Review on Certiorari under Rule 45 of the Rules of Court praying that judgment be rendered reversing and setting aside the September 30, 2010 Decision^[1] and the January 4, 2011 Resolution^[2] of the Court of Appeals Nineteenth Division in CA-G.R. CV No. 01388. The Petition also prays that respondents Spouses Romeo and Annie Abella be ordered to pay petitioners Spouses Salvador and Alma Abella 2.5% monthly interest plus the remaining balance of the amount loaned.

The assailed September 30, 2010 Decision of the Court of Appeals reversed and set aside the December 28, 2005 Decision^[3] of the Regional Trial Court, Branch 8, Kalibo, Aklan in Civil Case No. 6627. It directed petitioners to pay respondents P148,500.00 (plus interest), which was the amount respondents supposedly overpaid. The assailed January 4, 2011 Resolution of the Court of Appeals denied petitioners' Motion for Reconsideration.

The Regional Trial Court's December 28, 2005 Decision ordered respondents to pay petitioners the supposedly unpaid loan balance of P300,000.00 plus the allegedly stipulated interest rate of 30% per annum, as well as litigation expenses and attorney's fees.^[4]

On July 31, 2002, petitioners Spouses Salvador and Alma Abella filed a Complaint^[5] for sum of money and damages with prayer for preliminary attachment against respondents Spouses Romeo and Annie Abella before the Regional Trial Court, Branch 8, Kalibo, Aklan. The case was docketed as Civil Case No. 6627.^[6]

In their Complaint, petitioners alleged that respondents obtained a loan from them in the amount of P500,000.00. The loan was evidenced by an acknowledgment receipt dated March 22, 1999 and was payable within one (1) year. Petitioners added that respondents were able to pay a total of P200,000.00—P100,000.00 paid on two separate occasions—leaving an unpaid balance of P300,000.00.^[7]

In their Answer^[8] (with counterclaim and motion to dismiss), respondents alleged that the amount involved did not pertain to a loan they obtained from petitioners but was part of the capital for a joint venture involving the lending of money.^[9]

Specifically, respondents claimed that they were approached by petitioners, who proposed that if respondents were to "undertake the management of whatever money [petitioners] would give them, [petitioners] would get 2.5% a month with a 2.5% service fee to [respondents]."^[10] The 2.5% that each party would be receiving represented their sharing of the 5% interest that the joint venture was supposedly going to charge against its debtors. Respondents further alleged that the one year averred by petitioners was not a deadline for payment but the term within which they were to return the money placed by petitioners should the joint venture prove to be not lucrative. Moreover, they claimed that the entire amount of P500,000.00 was disposed of in accordance with their agreed terms and conditions and that petitioners terminated the joint venture, prompting them to collect from the joint venture's borrowers. They were, however, able to collect only to the extent of P200,000.00; hence, the P300,000.00 balance remained unpaid.^[11]

In the Decision^[12] dated December 28, 2005, the Regional Trial Court ruled in favor of petitioners. It noted that the terms of the acknowledgment receipt executed by respondents clearly showed that: (a) respondents were indebted to the extent of P500,000.00; (b) this indebtedness was to be paid within one (1) year; and (c) the indebtedness was subject to interest. Thus, the trial court concluded that respondents obtained a simple loan, although they later invested its proceeds in a lending enterprise.^[13] The Regional Trial Court adjudged respondents solidarity liable to petitioners. The dispositive portion of its Decision reads:

WHEREFORE, premises considered, judgment is hereby rendered:

1. Ordering the defendants jointly and severally to pay the plaintiffs the sum of P300,000.00 with interest at the rate of 30% per annum from the time the complaint was filed on July 31, 2002 until fully paid;
2. Ordering the defendants to pay the plaintiffs the sum of P2,227.50 as reimbursement for litigation expenses, and another sum of P5,000.00 as attorney's fees.

For lack of legal basis, plaintiffs' claim for moral and exemplary damages has to be denied, and for lack of merit the counter-claim is ordered dismissed.^[14]

In the Order dated March 13, 2006,^[15] the Regional Trial Court denied respondents' Motion for Reconsideration.

On respondents' appeal, the Court of Appeals ruled that while respondents had indeed entered into a simple loan with petitioners, respondents were no longer liable to pay the outstanding amount of P300,000.00.^[16]

The Court of Appeals reasoned that the loan could not have earned interest, whether as contractually stipulated interest or as interest in the concept of actual or compensatory damages. As to the loan's not having earned stipulated interest, the Court of Appeals anchored its ruling on Article 1956 of the Civil Code, which requires interest to be stipulated in writing for it to be due.^[17] The Court of Appeals noted that while the acknowledgement receipt showed that interest was to be charged, no

particular interest rate was specified.^[18] Thus, at the time respondents were making interest payments of 2.5% per month, these interest payments were invalid for not being properly stipulated by the parties. As to the loan's not having earned interest in the concept of actual or compensatory damages, the Court of Appeals, citing *Eusebio-Calderon v. People*,^[19] noted that interest in the concept of actual or compensatory damages accrues only from the time that demand (whether judicial or extrajudicial) is made. It reasoned that since respondents received petitioners' demand letter only on July 12, 2002, any interest in the concept of actual or compensatory damages due should be reckoned only from then. Thus, the payments for the 2.5% monthly interest made after the perfection of the loan in 1999 but before the demand was made in 2002 were invalid.^[20]

Since petitioners' charging of interest was invalid, the Court of Appeals reasoned that all payments respondents made by way of interest should be deemed payments for the principal amount of P500,000.00.^[21]

The Court of Appeals further noted that respondents made a total payment of P648,500.00, which, as against the principal amount of P500,000.00, entailed an overpayment of P148,500.00. Applying the principle of *solutio indebiti*, the Court of Appeals concluded that petitioners were liable to reimburse respondents for the overpaid amount of P148,500.00.^[22] The dispositive portion of the assailed Court of Appeals Decision reads:

WHEREFORE, the Decision of the Regional Trial Court is hereby **REVERSED** and **SET ASIDE**, and a new one issued, finding that the Spouses Salvador and Alma Abella are **DIRECTED** to jointly and severally pay Spouses Romeo and Annie Abella the amount of P148,500.00, with interest of 6% interest (sic) *per annum* to be computed upon receipt of this decision, until full satisfaction thereof. Upon finality of this judgment, an interest as the rate of 12% *per annum*, instead of 6%, shall be imposed on the amount due, until full payment thereof.^[23]

In the Resolution^[24] dated January 4, 2011, the Court of Appeals denied petitioners' Motion for Reconsideration.

Aggrieved, petitioners filed the present appeal^[25] where they claim that the Court of Appeals erred in completely striking off interest despite the parties' written agreement stipulating it, as well as in ordering them to reimburse and pay interest to respondents.

In support of their contentions, petitioners cite Article 1371 of the Civil Code,^[26] which calls for the consideration of the contracting parties' contemporaneous and subsequent acts in determining their true intention. Petitioners insist that respondents' consistent payment of interest in the year following the perfection of the loan showed that interest at 2.5% per month was properly agreed upon despite its not having been expressly stated in the acknowledgment receipt. They add that during the proceedings before the Regional Trial Court, respondents admitted that interest was due on the loan.^[27]

In their Comment,^[28] respondents reiterate the Court of Appeals' findings that no interest rate was ever stipulated by the parties and that interest was not due and demandable at the time they were making interest payments.^[29]

In their Reply,^[30] petitioners argue that even though no interest rate was stipulated in the acknowledgment receipt, the case fell under the exception to the Parol Evidence Rule. They also argue that there exists convincing and sufficiently credible evidence to supplement the imperfection of the acknowledgment receipt.^[31]

For resolution are the following issues:

First, whether interest accrued on respondents' loan from petitioners, If so, at what rate?

Second, whether petitioners are liable to reimburse respondents for the Litter's supposed excess payments and for interest.

I

As noted by the Court of Appeals and the Regional Trial Court, respondents entered into a simple loan or *mutuum*, rather than a joint venture, with petitioners.

Respondents' claims, as articulated in their testimonies before the trial court, cannot prevail over the clear terms of the document attesting to the relation of the parties. "If the terms of a contract are clear and leave no doubt upon the intention of the contracting parties, the literal meaning of its stipulations shall control."^[32]

Articles 1933 and 1953 of the Civil Code provide the guideposts that determine if a contractual relation is one of simple loan or *mutuum*:

Art. 1933. By the contract of loan, *one of the parties delivers to another*, either something not consumable so that the latter may use the same for a certain time and return it, in which case the contract is called a commodatum; or money or other consumable thing, *upon the condition that the same amount of the same kind and quality shall be paid*, in which case the contract is simply called a loan or mutuum.

Commodatum is essentially gratuitous.

Simple loan may be gratuitous or with a stipulation to pay interest.

In commodatum the bailor retains the ownership of the thing loaned, while in simple loan, ownership passes to the borrower.

....

Art. 1953. A person who receives a loan of money or any other fungible thing acquires the ownership thereof, and is bound to pay to the creditor an equal amount of the same kind and quality. (Emphasis supplied)

On March 22, 1999, respondents executed an acknowledgment receipt to petitioners, which states:

Batan, Aklan
March 22, 1999

This is to acknowledge receipt of the Amount of Five Hundred Thousand (P500,000.00) Pesos from Mrs. Alma R. Abella, payable within one (1) year from date hereof *with interest*.

Annie C. Abella (sgd.)

[33]

Romeo M. Abella (sgd.)

(Emphasis supplied)

The text of the acknowledgment receipt is uncomplicated and straightforward. It attests to: first, respondents' receipt of the sum of P500,000.00 from petitioner Alma Abella; second, respondents' duty to pay tack this amount within one (1) year from March 22, 1999; and third, respondents' duty to pay interest. Consistent with what typifies a simple loan, petitioners delivered to respondents with the corresponding condition lat respondents shall pay the same amount to petitioners within one (1) year.

II

Although we have settled the nature of the contractual relation between petitioners and respondents, controversy persists over respondents' duty to pay conventional interest, i.e., interest as the cost of borrowing money.^[34]

Article 1956 of the Civil Code spells out the basic rule that "[n]o interest shall be due unless it has been expressly stipulated in writing."

On the matter of interest, the text of the acknowledgment receipt is simple, plain, and unequivocal. It attests to the contracting parties' intent to subject to interest the loan extended by petitioners to respondents. The controversy, however, stems from the acknowledgment receipt's failure to state the exact rate of interest.

Jurisprudence is clear about the applicable interest rate if a written instrument fails to specify a rate. In *Spouses Toring v. Spouses Olan*,^[35] this court clarified the effect of Article 1956 of the Civil Code and noted that the legal rate of interest (then at 12%) is to apply: "In a loan or forbearance of money, according to the Civil Code, the interest due should be that stipulated in writing, and *in the absence thereof, the rate shall be 12% per annum*."^[36]

Spouses Toring cites and restates (practically verbatim) what this court settled in *Security Bank and Trust Company v. Regional Trial Court of Makati, Branch 61*: "In a loan or forbearance of money, the interest due should be that stipulated in writing, and *in the absence thereof the rate shall be 12% per annum*."^[37]

Security Bank also refers to *Eastern Shipping Lines, Inc. v. Court of Appeals*, which, in turn, stated:^[38]