

## FIRST DIVISION

[ G.R. No. 187678, April 10, 2013 ]

**SPOUSES IGNACIO F. JUICO AND ALICE P. JUICO, PETITIONERS,  
VS. CHINA BANKING CORPORATION, RESPONDENT.**

### DECISION

**VILLARAMA, JR., J.:**

Before us is a petition for review on certiorari under Rule 45 of the 1997 Rules of Civil Procedure, as amended, assailing the February 20, 2009 Decision<sup>[1]</sup> and April 27, 2009 Resolution<sup>[2]</sup> of the Court of Appeals (CA) in CA G.R. CV No. 80338. The CA affirmed the April 14, 2003 Decision<sup>[3]</sup> of the Regional Trial Court (RTC) of Makati City, Branch 147.

The factual antecedents:

Spouses Ignacio F. Juico and Alice P. Juico (petitioners) obtained a loan from China Banking Corporation (respondent) as evidenced by two Promissory Notes both dated October 6, 1998 and numbered 507-001051-3<sup>[4]</sup> and 507-001052-0,<sup>[5]</sup> for the sums of P6,216,000 and P4,139,000, respectively. The loan was secured by a Real Estate Mortgage (REM) over petitioners' property located at 49 Greenville St., White Plains, Quezon City covered by Transfer Certificate of Title (TCT) No. RT-103568 (167394) PR-41208<sup>[6]</sup> of the Register of Deeds of Quezon City.

When petitioners failed to pay the monthly amortizations due, respondent demanded the full payment of the outstanding balance with accrued monthly interests. On September 5, 2000, petitioners received respondent's last demand letter<sup>[7]</sup> dated August 29, 2000.

As of February 23, 2001, the amount due on the two promissory notes totaled P19,201,776.63 representing the principal, interests, penalties and attorney's fees. On the same day, the mortgaged property was sold at public auction, with respondent as highest bidder for the amount of P10,300,000.

On May 8, 2001, petitioners received<sup>[8]</sup> a demand letter<sup>[9]</sup> dated May 2, 2001 from respondent for the payment of P8,901,776.63, the amount of deficiency after applying the proceeds of the foreclosure sale to the mortgage debt. As its demand remained unheeded, respondent filed a collection suit in the trial court. In its Complaint,<sup>[10]</sup> respondent prayed that judgment be rendered ordering the petitioners to pay jointly and severally: (1) P8,901,776.63 representing the amount of deficiency, plus interests at the legal rate, from February 23, 2001 until fully paid; (2) an additional amount equivalent to 1/10 of 1% per day of the total amount, until fully paid, as penalty; (3) an amount equivalent to 10% of the foregoing amounts as attorney's fees; and (4) expenses of litigation and costs of suit.

In their Answer,<sup>[11]</sup> petitioners admitted the existence of the debt but interposed, by way of special and affirmative defense, that the complaint states no cause of action considering that the principal of the loan was already paid when the mortgaged property was extrajudicially foreclosed and sold for P10,300,000. Petitioners contended that should they be held liable for any deficiency, it should be only for P55,000 representing the difference between the total outstanding obligation of P10,355,000 and the bid price of P10,300,000. Petitioners also argued that even assuming there is a cause of action, such deficiency cannot be enforced by respondent because it consists only of the penalty and/or compounded interest on the accrued interest which is generally not favored under the Civil Code. By way of counterclaim, petitioners prayed that respondent be ordered to pay P100,000 in attorney's fees and costs of suit.

At the trial, respondent presented Ms. Annabelle Cokai Yu, its Senior Loans Assistant, as witness. She testified that she handled the account of petitioners and assisted them in processing their loan application. She called them monthly to inform them of the prevailing rates to be used in computing interest due on their loan. As of the date of the public auction, petitioners' outstanding balance was P19,201,776.63<sup>[12]</sup> based on the following statement of account which she prepared:

STATEMENT OF ACCOUNT  
As of FEBRUARY 23, 2001  
IGNACIO F. JUICO

PN# 507-0010520 due on 04-07-2004

Principal balance of PN# 5070010520. . . . .	4,139,000.00
Interest on P4,139,000.00 fr. 04-Nov-99 04-Nov-2000 366 days @ 15.00%. . . . .	622,550.96
Interest on P4,139,000.00 fr. 04-Nov-2000 04-Dec-2000 30 days @ 24.50%. . . . .	83,346.99
Interest on P4,139,000.00 fr. 04-Dec-2000 04-Jan-2001 31 days @ 21.50%. . . . .	75,579.27
Interest on P4,139,000.00 fr. 04-Jan-2001 04-Feb-2001 31 days @ 19.50%. . . . .	68,548.64
Interest on P4,139,000.00 fr. 04-Feb-2001 23-Feb-2001 19 days @ 18.00%. . . . .	38,781.86
Penalty charge @ 1/10 of 1% of the total amount due (P4,139,000.00 from 11-04-99 to 02-23-2001 @ 1/10 of 1% per day). . . . .	1,974,303.00
Sub-total. . . . .	<u>7,002,110.73</u>

PN# 507-0010513 due on 04-07-2004	
Principal balance of PN# 5070010513. . . . .	6,216,000.00
Interest on P6,216,000.00 fr. 06-Oct-99 04-Nov-2000 395 days @ 15.00%. . . . .	1,009,035.62
Interest on P6,216,000.00 fr. 04-Nov-2000 04-Dec-2000 30 days @ 24.50%. . . . .	125,171.51
Interest on P6,216,000.00 fr. 04-Dec-2000 04-Jan-2001 31 days @ 21.50%. . . . .	113,505.86
Interest on P6,216,000.00 fr. 04-Jan-2001 04-Feb-2001 31 days @ 19.50%. . . . .	102,947.18
Interest on P6,216,000.00 fr. 04-Feb-2001 23-Feb-2001 19 days @ 18.00%. . . . .	58,243.07
Penalty charge @ 1/10 of 1% of the total amount due (P6,216,000.00 from 10-06-99 to 02-23-2001 @ 1/10 of 1% per day). . . . .	<u>3,145,296.00</u>
Subtotal. . . . .	10,770,199.23
Total. . . . .	<u>17,772,309.96</u>
Less: A/P applied to balance of principal	(55,000.00)
Less: Accounts payable L & D	<u>(261,149.39)</u>
	<u>17,456,160.57</u>
Add: 10% Attorney's Fee	<u>1,745,616.06</u>
Total amount due	19,201,776.63
Less: Bid Price	10,300,000.00
TOTAL DEFICIENCY AMOUNT AS OF FEB. 23, 2001	<u>8,901,776.63</u> <sup>[13]</sup>

Petitioners thereafter received a demand letter<sup>[14]</sup> dated May 2, 2001 from respondent's counsel for the deficiency amount of P8,901,776.63. Ms. Yu further testified that based on the Statement of Account<sup>[15]</sup> dated March 15, 2002 which she prepared, the outstanding balance of petitioners was P15,190,961.48.<sup>[16]</sup>

On cross-examination, Ms. Yu reiterated that the interest rate changes every month based on the prevailing market rate and she notified petitioners of the prevailing rate by calling them monthly *before* their account becomes past due. When asked if there was any written authority from petitioners for respondent to increase the interest rate unilaterally, she answered that petitioners signed a promissory note indicating that they agreed to pay interest at the prevailing rate.<sup>[17]</sup>

Petitioner Ignacio F. Juico testified that prior to the release of the loan, he was required to sign a blank promissory note and was informed that the interest rate on the loan will be based on prevailing market rates. Every month, respondent informs him by telephone of the prevailing interest rate. At first, he was able to pay his monthly amortizations but when he started to incur delay in his payments due to the financial crisis, respondent pressured him to pay in full, including charges and interests for the delay. His property was eventually foreclosed and was sold at public auction.<sup>[18]</sup>

On cross-examination, petitioner testified that he is a Doctor of Medicine and also engaged in the business of distributing medical supplies. He admitted having read the promissory notes and that he is aware of his obligation under them before he signed the same.<sup>[19]</sup>

In its decision, the RTC ruled in favor of respondent. The fallo of the RTC decision reads:

WHEREFORE, premises considered, the Complaint is hereby sustained, and Judgment is rendered ordering herein defendants to pay jointly and severally to plaintiff, the following:

1. P8,901,776.63 representing the amount of the deficiency owing to the plaintiff, plus interest thereon at the legal rate after February 23, 2001;
2. An amount equivalent to 10% of the total amount due as and for attorney's fees, there being stipulation therefor in the promissory notes;
3. Costs of suit.

SO ORDERED.<sup>[20]</sup>

The trial court agreed with respondent that when the mortgaged property was sold at public auction on February 23, 2001 for P10,300,000 there remained a balance of P8,901,776.63 since before foreclosure, the total amount due on the two promissory notes aggregated to P19,201,776.63 inclusive of principal, interests, penalties and attorney's fees. It ruled that the amount realized at the auction sale was applied to the interest, conformably with Article 1253 of the Civil Code which provides that if the debt produces interest, payment of the principal shall not be deemed to have been made until the interests have been covered. This being the case, petitioners' principal obligation subsists but at a reduced amount of P8,901,776.63.

The trial court further held that Ignacio's claim that he signed the promissory notes in blank cannot negate or mitigate his liability since he admitted reading the promissory notes before signing them. It also ruled that considering the substantial amount involved, it is unbelievable that petitioners threw all caution to the wind and simply signed the documents without reading and understanding the contents thereof. It noted that the promissory notes, including the terms and conditions, are pro forma and what appears to have been left in blank were the promissory note number, date of the instrument, due date, amount of loan, and condition that

interest will be at the prevailing rates. All of these details, the trial court added, were within the knowledge of the petitioners.

When the case was elevated to the CA, the latter affirmed the trial court's decision. The CA recognized respondent's right to claim the deficiency from the debtor where the proceeds of the sale in an extrajudicial foreclosure of mortgage are insufficient to cover the amount of the debt. Also, it found as valid the stipulation in the promissory notes that interest will be based on the prevailing rate. It noted that the parties agreed on the interest rate which was not unilaterally imposed by the bank but was the rate offered daily by all commercial banks as approved by the Monetary Board. Having signed the promissory notes, the CA ruled that petitioners are bound by the stipulations contained therein.

Petitioners are now before this Court raising the sole issue of whether the interest rates imposed upon them by respondent are valid.

Petitioners contend that the interest rates imposed by respondent are not valid as they were not by virtue of any law or Bangko Sentral ng Pilipinas (BSP) regulation or any regulation that was passed by an appropriate government entity. They insist that the interest rates were unilaterally imposed by the bank and thus violate the principle of mutuality of contracts. They argue that the escalation clause in the promissory notes does not give respondent the unbridled authority to increase the interest rate unilaterally. Any change must be mutually agreed upon.

Respondent, for its part, points out that petitioners failed to show that their case falls under any of the exceptions wherein findings of fact of the CA may be reviewed by this Court. It contends that an inquiry as to whether the interest rates imposed on the loans of petitioners were supported by appropriate regulations from a government agency or the Central Bank requires a reevaluation of the evidence on records. Thus, the Court would in effect, be confronted with a factual and not a legal issue.

The appeal is partly meritorious.

The principle of mutuality of contracts is expressed in Article 1308 of the Civil Code, which provides:

Article 1308. The contract must bind both contracting parties; its validity or compliance cannot be left to the will of one of them.

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

The binding effect of any agreement between parties to a contract is premised on two settled principles: (1) that any obligation arising from contract has the force of law between the parties; and (2) that there must be mutuality between the parties based on their essential equality. Any contract which appears to be heavily weighed in favor of one of the parties so as to lead to an unconscionable result is void. Any stipulation regarding the validity or compliance of the contract which is left solely to the will of one of the parties, is likewise, invalid.<sup>[21]</sup>