

## SECOND DIVISION

[ G.R. No. 194201, November 27, 2013 ]

**SPOUSES BAYANI H. ANDAL AND GRACIA G. ANDAL,  
PETITIONERS, VS. PHILIPPINE NATIONAL BANK, REGISTER OF  
DEEDS OF BATANGAS CITY, JOSE C. CORALES, RESPONDENTS.**

### D E C I S I O N

**PEREZ, J.:**

Before the Court is a Petition for Review on *Certiorari*<sup>[1]</sup> under Rule 45 of the Rules of Court seeking to partially set aside the Decision,<sup>[2]</sup> dated 30 March 2010, and the Resolution,<sup>[3]</sup> dated 13 October 2010, of the Court of Appeals (CA) in CA-G.R. CV No. 91250. The challenged Decision dismissed the appeal of herein respondent Philippine National Bank (respondent bank) and affirmed the decision of the Regional Trial Court (RTC), Branch 84, Batangas City with the modification that the interest rate to be applied by respondent bank on the principal loan obligation of petitioners Spouses Bayani H. Andal and Gracia G. Andal (petitioners-spouses) shall be 12% per annum, to be computed from default.

As found by the CA, the facts of this case are as follows:

x x x on September 7, 1995, [petitioners-spouses] obtained a loan from [respondent bank] in the amount of P21,805,000.00, for which they executed twelve (12) promissory notes x x x [undertaking] to pay [respondent bank] the principal loan with varying interest rates of 17.5% to 27% per interest period. It was agreed upon by the parties that the rate of interest may be increased or decreased for the subsequent interest periods, with prior notice to [petitioners-spouses], in the event of changes in interest rates prescribed by law or the Monetary Board x x x, or in the bank's overall cost of funds.

To secure the payment of the said loan, [petitioners-spouses] executed in favor of [respondent bank] a real estate mortgage using as collateral five (5) parcels of land including all improvements therein, all situated in Batangas City and covered by Transfer Certificate of Title (TCT) Nos. T-641, T-32037, T-16730, T-31193 and RT 363 (3351) of the Registry of Deeds of Batangas City, in the name of [petitioners-spouses].

Subsequently, [respondent bank] advised [petitioners-spouses] to pay their loan obligation, otherwise the former will declare the latter's loan due and demandable. On July 17, 2001, [petitioners-spouses] paid P14,800,000.00 to [respondent bank] to avoid foreclosure of the properties subject of the real estate mortgage. Accordingly, [respondent bank] executed a release of real estate mortgage over the parcels of land

covered by TCT Nos. T-31193 and RT-363 (3351). However, despite payment x x x, [respondent bank] proceeded to foreclose the real estate mortgage, particularly with respect to the three (3) parcels of land covered by TCT Nos. T-641, T-32037 and T-16730 x x x.

x x x [A] public auction sale of the properties proceeded, with the [respondent bank] emerging as the highest and winning bidder. Accordingly, on August 30, 2002, a certificate of sale of the properties involved was issued. [Respondent bank] consolidated its ownership over the said properties and TCT Nos. T-52889, T-52890, and T-52891 were issued in lieu of the cancelled TCT[s] x x x. This prompted [petitioners-spouses] to file x x x a complaint for annulment of mortgage, sheriff's certificate of sale, declaration of nullity of the increased interest rates and penalty charges plus damages, with the RTC of Batangas City.

In their amended complaint, [petitioners-spouses] alleged that they tried to religiously pay their loan obligation to [respondent bank], but the exorbitant rate of interest unilaterally determined and imposed by the latter prevented the former from paying their obligation. [Petitioners-spouses] also alleged that they signed the promissory notes in blank, relying on the representation of [respondent bank] that they were merely proforma [sic] bank requirements. Further, [petitioners-spouses] alleged that the unilateral increase of interest rates and exorbitant penalty charges are akin to unjust enrichment at their expense, giving [respondent bank] no right to foreclose their mortgaged properties. x x x.

x x x x

On August 27, 2004 [respondent bank] filed its answer, denying the allegations in the complaint. x x x [respondent bank] alleged that: the penalty charges imposed on the loan was expressly stipulated under the credit agreements and in the promissory notes; although [petitioners-spouses] paid to [respondent bank] P14,800,000.00 on July 10, 2001, the former was still indebted to the latter in the amount of P33,960,633.87; assuming *arguendo* that the imposition was improper, the foreclosure of the mortgaged properties is in order since [respondent bank's] bid in the amount of P28,965,100.00 was based on the aggregate appraised rates of the foreclosed properties. x x x<sup>[4]</sup>

After trial, the RTC rendered judgment<sup>[5]</sup> in favor of petitioners-spouses and against respondent bank, ordering that:

1. The rate of interest should be reduced as it is hereby reduced to 6% in accordance with Article 2209 of the Civil Code effective the next 30, 31 and 180 days respectively from the date of the twelve (12) promissory notes x x x covered by the real estate x x x mortgages, to be applied on a declining balance of the principal after the partial payments of P14,800,00.00 (paid July 17, 2001) and P2,000,000.00<sup>[6]</sup> (payments of P300,000.00 on October 1, 1999,

P1,800,000.00 as [of] December 1, 1999, P700,000.00 [on] January 31, 2000) per certification of [respondent bank] to be reckoned at (sic) the dates the said payments were made, thus the corrected amounts of the liability for principal balance and the said 6% charges per annum shall be the new basis for the [petitioners-spouses] to make payments to the [respondent bank] x x x which shall automatically extinguish and release the mortgage contracts and the outstanding liabilities of the [petitioners-spouses]; [respondent bank] shall then surrender the new transfer certificates of title x x x in its name to the [c]ourt x x x, [c]anceling the penalty charges.

x x x x

3. Declaring as illegal and void the foreclosure sales x x x, the Certificates of Sales and the consolidation of titles of the subject real properties, including the cancellation of the new Transfer Certificates of Title x x x in the name of the [respondent] bank and reinstating Transfer Certificates of Title Nos. T-641, T-32037 and T-16730 in the names of the [petitioners-spouses]; the latter acts to be executed by the Register of Deeds of Batangas City.<sup>[7]</sup>

The foregoing disposition of the RTC was based on the following findings of fact:

As of this writing the [respondent] bank have (sic) not complied with the said orders as to the interest rates it had been using on the loan of [petitioners-spouses] and the monthly computation of interest vis a vis (sic) the total shown in the statement of account as of Aug 30, 2002. Such refusal amounts to suppression of evidence thus tending to show that the interest used by the bank was unilaterally increased without the written consent of the [petitioners-spouses]/borrower as required by law and Central Bank Circular No. 1171. The latter circular provides that any increase of interest in a given interest period will have to be expressly agreed to in writing by the borrower. The mortgaged properties were subject of foreclosure and were sold on August 30, 2002 and the [respondent] bank's statement of account as of August 30, 2002 x x x shows unpaid interest up to July 17, 2001 of P12,695,718.99 without specifying the rate of interest for each interest period of thirty days. Another statement of account of [respondent bank] x x x as [of] the date of foreclosure on August 30, 2002 shows account balance of P20,505,916.51 with a bid price of P28,965,100.00 and showing an interest of P16,163,281.65. Again, there are no details of the interest used for each interest period from the time these loans were incurred up to the date of foreclosure. These statements of account together with the stated interest and expenses after foreclosure were furnished by the [respondent] bank during the [c]ourt hearings. The central legal question is that there is no agreement in writing from the [petitioners-spouses]/borrowers for the interest rate for each interest period neither from the data coming from the Central Bank or the cost of money which is understood to mean the interest cost of the bank deposits from the public. Such imposition of the increased interest without the consent of

the borrower is null and void pursuant to Article 1956 of the Civil Code and as held in the pronouncement of the Supreme Court in several cases and C.B. Circular No. 1191 that the interest rate for each re-pricing period under the floating rate of interest is subject to mutual agreement in writing. Art. 1956 states that no interest is due unless it has been expressly stipulated and agreed to in writing.

Any stipulation where the fixing of interest rate is the sole prerogative of the creditor/mortgagee, belongs to the class of potestative condition which is null and void under Art. 1308 of the New Civil Code. The fulfillment of a condition cannot be left to the sole will of [one of] the contracting parties.

x x x x

In the instant case, if the interest is declared null and void, the foreclosure sale for a higher amount than what is legally due is likewise null and void because under the Civil Code, a mortgage may be foreclosed only to enforce the fulfillment of the obligation for whose security it was constituted (Art. 2126, Civil Code).

x x x x

Following the declaration of nullity of the stipulation on floating rate of interest since no interest may be collected based on the stipulation that is null and void and legally inexistent and unenforceable. x x x. Since the interest imposed is illegal and void only the rate of 6% interest per month shall be imposed as liquidated damages under Art. 2209 of the Civil Code.

It is worth mentioning that these forms used by the bank are pre-printed forms and therefore contracts of adhesion and x x x any dispute or doubt concerning them shall be resolved in favor of the x x x borrower. This (sic) circumstances tend to support the contention of the [petitioners-spouses] that they were made to sign the real estate mortgages/promissory notes in blank with respect to the interest rates.

x x x x

[Respondent bank has] no right to foreclose [petitioners-spouses'] property and any foreclosure thereof is illegal, unreasonable and void, since [petitioners-spouses] are not and cannot be considered in default for their inability to pay the arbitrarily, illegally, and unconscionably adjusted interest rates and penalty charges unilaterally made and imposed by [respondent] bank.

The [petitioners-spouses] submitted to the [c]ourt certified copies of the weighted average of Selected Domestic Interest Rates of the local banks obtained from the Bangko Sentral ng Pilipinas Statistical Center and it shows a declining balance of interest rates x x x.

x x x x

There is no showing by the [respondent bank] that any of the foregoing rate was ever used to increase or decrease the interest rates charged upon the [petitioners-spouses'] mortgage loan for the 30 day re-pricing period subsequent to the first 30 days from [the] dates of the promissory notes. These documents submitted being certified public documents are entitled to being taken cognizance of by the [c]ourt as an aid to its decision making. x x x.<sup>[8]</sup>

Respondent bank appealed the above judgment of the trial court to the CA. Its main contention is that the lower court erred in ordering the re-computation of petitioners-spouses' loans and applying the interest rate of 6% per annum. According to respondent bank, the stipulation on the interest rates of 17.5% to 27%, subject to periodic adjustments, was voluntarily agreed upon by the parties; hence, it was not left to the sole will of respondent bank. Thus, the lower court erred in reducing the interest rate to 6% and in setting aside the penalty charges, as such is contrary to the principle of the obligatory force of contracts under Articles 1315 and 1159 of the Civil Code.<sup>[9]</sup>

The CA disposed of the issue in the following manner:

We partly agree with [respondent bank's] contention.

Settled is the rule that the contracting parties are free to enter into stipulations, clauses, terms and conditions as they may deem convenient, as long as these are not contrary to law, morals, good customs, public order or public policy. Pursuant to Article 1159 of the Civil Code, these obligations arising from such contracts have the force of law between the parties and should be complied with in good faith. x x x.

x x x x

In the case at bar, [respondent bank] and [petitioners-spouses] expressly stipulated in the promissory notes the rate of interest to be applied to the loan obtained by the latter from the former, x x x.

x x x x

[Respondent bank] insists that [petitioner-spouses] agreed to the interest rates stated in the promissory notes since the latter voluntarily signed the same. However, we find more credible and believable the version of [petitioners-spouses] that they were made to sign the said promissory notes in blank with respect to the rate of interest and penalty charges, and subsequently, [respondent] bank filled in the blanks, imposing high interest rate beyond which they were made to understand at the time of the signing of the promissory notes.

x x x x

The signing by [petitioners-spouses] of the promissory notes in blank