

## THIRD DIVISION

[ G.R. No. 163433, August 22, 2011 ]

**SPOUSES NELSON R. VILLANUEVA AND MYRA P. VILLANUEVA,  
PETITIONERS, VS. THE COURT OF APPEALS, PROVIDENT RURAL  
BANK OF SANTA CRUZ (LAGUNA), INC., AND THE CLERK OF  
COURT OF THE REGIONAL TRIAL COURT OF LAGUNA AS EX-  
OFFICIO PROVINCIAL SHERIFF, RESPONDENTS.**

### D E C I S I O N

**PERALTA, J.:**

Assailed in the present petition for review on *certiorari* under Rule 45 of the Rules of Court are the Decision<sup>[1]</sup> and Resolution<sup>[2]</sup> of the Court of Appeals (CA) dated June 16, 2003 and April 28, 2004, respectively, in CA-G.R. CV No. 73256. The CA Decision affirmed the July 31, 2001 Order<sup>[3]</sup> of the Regional Trial Court (RTC) of Santa Cruz, Laguna, Branch 91, which dismissed herein petitioners' petition for declaratory relief, while the CA Resolution denied petitioners' Motion for Reconsideration.

The pertinent facts of the case are as follows:

Sometime in 1994, herein petitioners applied for separate loans amounting to P100,000.00 and P125,000.00, which were granted by herein respondent Provident Rural Bank of Sta. Cruz, Laguna, Inc. (respondent Bank).

As security for the loans, petitioners executed two separate promissory notes the due dates of which both fall on August 20, 1995.<sup>[4]</sup> Petitioners also executed two separate real estate mortgages over the same parcel of agricultural land located in Sta. Cruz, Laguna.<sup>[5]</sup>

Petitioners failed to pay their loans when they became due.

As a consequence, on June 14, 1996, respondent Bank filed a petition for extrajudicial foreclosure of the abovementioned mortgages with the Office of the Provincial Sheriff of Laguna. As of June 10, 1996, petitioners' obligations amounted to P287,187.50, plus interests, charges and expenses. On June 25, 1996 the Provincial Sheriff issued a Notice of Sale of the subject mortgaged property.<sup>[6]</sup> It would appear, however, that the auction sale did not push through because on June 9, 2000, respondent Bank re-applied for extrajudicial foreclosure of the same mortgage. On July 25, 2000, the Provincial Sheriff issued a Notice of Sale Re-Application of Foreclosure Case and set the public auction of the subject property on August 25, 2000.<sup>[7]</sup> As of June 15, 2000, petitioners' mortgage debt was P713,465.35, plus interests, charges and expenses.

Petitioners then wrote a letter-request addressed to the Officer-in-Charge of the Office of the Clerk of Court of the RTC, Santa Cruz, Laguna questioning the amount of its outstanding obligations to respondent Bank and requesting that the public auction scheduled on August 25, 2000 be suspended until after its objection to the amount being sought by respondent Bank is resolved by the court.<sup>[8]</sup>

However, petitioners' letter-request was denied.

Aggrieved, petitioners filed, on August 2, 2000, a Petition for Declaratory Relief, Accounting and Damages praying that the stipulated interests, charges and expenses on its loans be declared null and void for being contrary to law, morals, good customs, public order or public policy as they are exorbitant, usurious, iniquitous and unconscionable. The Petition was docketed as Civil Case No. SC-4032.<sup>[9]</sup>

On September 5, 2000, respondent Bank filed a Motion to Dismiss contending that the petition is barred by *res judicata* and that petitioners are guilty of forum shopping.<sup>[10]</sup> Respondent Bank argued that: on August 23, 1996, petitioners filed a complaint (docketed as Civil Case No. SC-3422) against it (respondent Bank) before the RTC of Sta. Cruz, Laguna, Branch 86, seeking to declare as usurious the interests, penalties and other charges which petitioners and respondent Bank had agreed upon in the subject real estate mortgages and promissory notes; that these same stipulated interest, penalties and other charges are the subject matter of the petition for declaratory relief; that respondent Bank also filed a Motion to Dismiss in Civil Case No. SC-3422 on the ground of lack of cause of action and suspension of the usury law; that respondent Bank's Motion to Dismiss was denied by the RTC but upon appeal, the CA, in CA-G.R. SP No. 49065, annulled the RTC Order and granted the said Motion.

Petitioners filed their Opposition to respondent Bank's Motion to Dismiss.<sup>[11]</sup>

Subsequently, on July 31, 2001, the RTC issued an Order dismissing petitioners' Petition for Declaratory Relief holding that the said Petition is barred by prior judgment, considering that the decision of the CA in CA-G.R. SP No. 49065 already settled the issues of usury and the right of petitioners to claim the abolition or reduction of the subject interest rates, which are the same issues raised by petitioners in their Petition for Declaratory Relief.<sup>[12]</sup>

Petitioners then filed an appeal with the CA assailing the abovementioned Order of the RTC.

On June 16, 2003, the CA promulgated the presently assailed Decision affirming the Order of the RTC and ruling that all the elements of *res judicata* are present.

Petitioners' Motion for Reconsideration was denied by the CA *via* its April 28, 2004 Resolution.

Hence, the present petition for review on *certiorari*.

Petitioners contend that the principle of *res judicata* does not apply in the present case on the ground that there is no identity of subject matter and cause of action in

Civil Case Nos. 3422 and 4032.

Petitioners further argue that even if all the elements of *res judicata* are present in the instant case, equity dictates that this principle should not be applied; otherwise, the court would be sanctioning respondent Bank's enrichment at the expense of petitioners through the imposition of exorbitant, unconscionable and usurious interest rates, penalties and other charges; in such a case, petitioners claim that justice would be sacrificed in favor of technicality.

Lastly, petitioners aver that they did not violate the rule on forum shopping because Civil Case No. SC-3422, the case being cited by respondent Bank in its Motion to Dismiss, was already decided by the CA in 1999, before petitioners filed their Petition for Declaratory Relief on August 2, 2000, and that there is no other pending case involving the same parties, subject matter and cause of action.

The petition lacks merit.

Anent petitioners' first contention, *res judicata* literally means "a matter adjudged; a thing judicially acted upon or decided; a thing or matter settled by judgment."<sup>[13]</sup> It lays the rule that an existing final judgment or decree rendered on the merits, without fraud or collusion, by a court of competent jurisdiction, upon any matter within its jurisdiction, is conclusive of the rights of the parties or their privies, in all other actions or suits in the same or any other judicial tribunal of concurrent jurisdiction on the points and matters in issue in the first suit.<sup>[14]</sup>

The elements of *res judicata* are: (1) the judgment sought to bar the new action must be final; (2) the decision must have been rendered by a court having jurisdiction over the subject matter and the parties; (3) the disposition of the case must be a judgment on the merits; and (4) there must be as between the first and second action, identity of parties, subject matter, and causes of action.<sup>[15]</sup> ]The Court finds that the CA and the RTC did not err in finding that all of the abovementioned elements are present in the instant case.

There is no dispute that the first three elements, as enumerated above, are present. As correctly held by the CA, the issues raised in Civil Case No. SC-3422 were already decided with finality by this Court when it denied petitioners' petition for review on *certiorari* in its Resolution dated August 23, 1999 in G.R. No. 139385. The said Resolution became final and executory on December 20, 1999.

With respect to the fourth element, there is also no dispute that there is identity of parties. However, the Court is not persuaded by petitioners' argument that there is no identity of subject matter and cause of action.

On the issue of identity of subject matter, this Court has held that the subject of an action is defined as the matter or thing with respect to which the controversy has arisen, concerning which a wrong has been done.<sup>[16]</sup>

The subject matters in Civil Case No. SC-3422 are the interest rates as well as penalties and other charges stipulated in the promissory notes and real estate mortgages executed by petitioners. These are the same subject matters in Civil Case No. SC-4032.

As to the cause of action, Rule 2, Section 2 of the Rules of Court defines cause of action as the act or omission by which a party violates a right of another. With respect to the identity of causes of action, this Court has laid down the test in determining whether or not the causes of action in the first and second cases are identical, to wit: would the same evidence support and establish both the present and former cause of action? If so, the former recovery is a bar; if otherwise, it does not stand in the way of the former action.<sup>[17]</sup>

In the instant case, the cause of action in both Civil Case Nos. SC-3422 and 4032 is the act of respondent Bank in imposing what petitioners alleged as exorbitant, unconscionable and usurious interest rates, penalties and other charges. There is, thus, no doubt that the same evidence is required to establish the cause of action in both of these cases.

In fact, the issues (whether or not the interest rates, penalties and charges imposed by respondent Bank are usurious and unconscionable) and the reliefs sought (reduction of the said interest rates, penalties and surcharges to an amount not exceeding 12% per annum) in both cases are essentially the same.

Neither is the Court persuaded by petitioners' contention that, in any case, the Court should not apply the principle of *res judicata* because to do so would be tantamount to allowing respondent Bank to unjustifiably and illegally enrich itself at the expense of petitioners by imposing interests, penalties and other charges beyond what the law and equity allows.

It is true that *res judicata* is to be disregarded if its rigid application would involve the sacrifice of justice to technicality.<sup>[18]</sup> However, the present case does not fall under this exception.

Petitioners contend that the interest rate of 24% *per annum* stipulated in the mortgage contract, which they executed in favor of respondent Bank, is usurious. This Court has consistently held that for sometime now, usury has been legally non-existent and that interest can now be charged as lender and borrower may agree upon.<sup>[19]</sup> In fact, Section 1 of Central Bank Circular No. 905, Series of 1982, which took effect on January 1, 1983, expressly provides that "[t]he rate of interest, including commissions, premiums, fees and other charges, on a loan or forbearance of any money, goods, or credits, regardless of maturity and whether secured or unsecured, that may be charged or collected by any person, whether natural or juridical, shall not be subject to any ceiling prescribed under or pursuant to the Usury Law, as amended." Nonetheless, this Court has also held in a number of cases, that nothing in the circular grants lenders *carte blanche* authority to raise interest rates to levels which will either enslave their borrowers or lead to a hemorrhaging of their assets.<sup>[20]</sup> Thus, the stipulated interest rates are illegal if they are unconscionable.

The question now is whether the 24% *per annum* interest rate is unreasonable under the circumstances obtaining in the present case.

The Court rules in the negative.