

SECOND DIVISION

[G.R. No. 176344, August 22, 2008]

LAND BANK OF THE PHILIPPINES, PETITIONER, VS. YOLANDA G. DAVID, RESPONDENT.

DECISION

CARPIO MORALES, J.:

Respondent, Yolanda G. David, doing business under the trade name David Poultry Farm with address at Arayat, Pampanga, obtained on April 21, 1993 a P1,100,000 loan from petitioner, Land Bank of the Philippines (Land Bank), to bear interest "based on the prevailing lender's rates/special financing rate"^[1] and penalty charge of 12% *per annum* in case of default in the settlement thereof. To secure the payment of the loan, respondent mortgaged^[2] a parcel of land covered by Transfer Certificate of Title No. 334702-R.^[3]

Due to serious business reverses suffered by respondent, she and petitioner executed on April 18, 1996 a Restructuring Agreement^[4] with the following terms:

As conditions for restructuring, the BORROWER hereby undertakes and promises, without need for any notice or demand or any act or deed to perform the following:

1. Restructuring of BORROWER's subject's [*sic*] outstanding obligation of PESOS: ONE MILLION ONE HUNDRED SEVENTY ONE THOUSAND FOUR HUNDRED SIXTY SEVEN & 18/100 CTS. (P1,171, 467.18) as of February 29, 1996 as follows:

a) Upfront payment of PESOS: THREE HUNDRED THOUSAND SIX HUNDRED TWENTY THREE & 55/100 CTS. (P300,623.55) presently lodged to Accounts Payable (A/P) shall be applied as follows:

**P165,146.85 - to settle the penalty
& interest**

135, 476.70 - to partially pay the
===== principal
P300,625.55

b) The remaining principal balance of PESOS: EIGHT HUNDRED SEVENTY THOUSAND EIGHT HUNDRED FORTY THREE & 63/100 (P870,843.63) after above application shall be charged **interest at 17% per annum** (p.a.) effective March 1, 1996. The restructured loan shall be paid in fifteen quarterly amortizations of PESOS: SEVENTY

NINE THOUSAND (P79,000.00) starting April 30, 1996, and every quarter thereafter after fully paid.

2. Failure of the BORROWER to remit two consecutive quarterly amortizations shall be sufficient ground to initiate foreclosure proceedings;

x x x x

5. All other terms and conditions of the original Loan Agreement as well as existing collateral documents not inconsistent herewith shall remain in force and effect.^[5] (Emphasis supplied)

Respondent defaulted in the payment of monthly amortizations of the loan; hence, the entire balance of the loan became due and demandable^[6] which, as of March 31, 1997, stood at P971,324.89.^[7] Despite demand,^[8] respondent failed to settle her obligation, prompting petitioner to initiate foreclosure proceedings.^[9]

Respondent thereupon filed on July 28, 1997 before the Regional Trial Court (RTC) of San Fernando, Pampanga a Complaint with prayer for Preliminary Injunction^[10] against petitioner, the Clerk of Court and Ex-Officio Sheriff of the RTC of Pampanga, and Sheriff Efren Cannivel. Arguing that the interest on the loan is usurious, respondent prayed:

1. That immediately upon the filing of th[e] action, a Restraining Order issue, prohibiting and stopping the defendant from proceeding with the Sale of the aforesaid property on July 28 and until the final resolution of th[e] case;
2. After hearing converting said Restraining Order into a Writ of Preliminary Injunction;
3. After trial: --
 - a. Declaring CB Circular No. 905 basis of high interest rate and any other circular floating the interest rate as without legal basis whatsoever and therefore null and void;
 - b. Declaring PD No. 116 which authorizes the CB now BSP to fix interest rates or ceiling as unconstitutional for being among others an undue delegation of legislative power.
 - c. Declaring that all payments made by the plaintiff to defendant be considered as payment of the principal without interest whatsoever;
 - d. Ordering defendant Bank to pay attorney's fee of P50,000.00.^[11] (Underscoring supplied)

As prayed for by respondent, the Executive Judge-Presiding Judge of Branch 42 of the San Fernando, Pampanga RTC immediately issued a Temporary Restraining Order.^[12]

Petitioner filed its Answer (With Compulsory Counterclaim [for damages and attorney's fees]).

After conducting a hearing on respondent's application for the issuance of writ of preliminary injunction, Branch 43 of the San Fernando RTC to which the case was raffled denied the application by Order^[13] of January 28, 1998.

Respondent subsequently filed on June 8, 1998 a Supplemental Complaint^[14] alleging that even before the denial of her application for writ of preliminary injunction, the mortgaged property was sold at public auction for P1,298,460.88, pursuant to which a Certificate of Sale^[15] was issued. She thus prayed for the annulment of the Certificate of Sale on the ground that "the amount for which [petitioner sought] to have the property sold at public auction is mostly an accumulation of usurious interest x x x."^[16] The Supplemental Complaint was admitted^[17] by the trial court as was a subsequently filed Amended Supplemental Complaint.^[18]

After trial, the trial court, by Decision^[19] of April 18, 2000, dismissed respondent's complaint and, acting on petitioner's Counterclaim, ordered respondent to pay moral damages, exemplary damages, attorney's fees, expenses of litigation, and costs of suit.

On appeal,^[20] the Court of Appeals, noting that the loan extended to respondent was part of the social assistance program to improve the plight of farmers, found the interest rate of 17% *per annum* and the penalty charge of 12% *per annum* exorbitant and thus reduced them to 12% *per annum* and 5% *per annum*, respectively. And it nullified the sale at public auction of the mortgaged property. Thus the appellate court disposed in its challenged Decision of July 22, 2005:^[21]

WHEREFORE, in view of the foregoing, the Decision dated April 18, 2000 is hereby **MODIFIED**. Accordingly, the Extrajudicial Foreclosure Sale of the property covered by TCT No. 334702-R of the Registry of Deeds of Pampanga is hereby declared **NULL** and **VOID**.

Appellant is, however, directed to **PAY** appellee LBP the amount of Five Hundred Ninety Two Thousand and Seven Hundred Ninety Two Pesos and 42/100 (P592,792.42) with interest at the legal rate from March 29, 1999, upon payment of which appellee LBP shall **RETURN** title of the mortgaged property to plaintiff-appellant and **RESTORE** her in possession thereof.

The award of moral and exemplary damages, attorney's fees and expenses of litigation to defendant LBP is **SET ASIDE**.

SO ORDERED.^[22] (Emphasis in the original)

Its Motion for Reconsideration^[23] having been denied,^[24] petitioner filed the present Petition for Review on Certiorari,^[25] raising the following issues: