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SECOND DIVISION

[G.R. No. 168782, October 10, 2008]

SPOUSES JOVENAL TORING AND CECILIA ESCALONA-TORING, PETITIONERS, VS. SPOUSES ROSALIE GANZON-OLAN AND GILBERT OLAN, AND ROWENA OLAN, RESPONDENTS.

D E C I S I O N

QUISUMBING, J.:

This petition for review on certiorari assails the Decision[1] and Resolution,[2] dated March 28, 2005 and June 30, 2005, respectively, of the Court of Appeals in CA-G.R. CV No. 76831. The Court of Appeals affirmed the Resolution[3] dated June 10, 2002 of the Regional Trial Court, Branch 276, Muntinlupa City, in Civil Case No. 00-137 which had ordered petitioners to pay respondents the sum of P20,000,000 representing the total amount of petitioners' loan and interest due.

The facts are as follows:

On September 4, 1998, petitioner Jovenal Toring obtained from respondents a loan amounting to P6,000,000 at 3% interest per month. The loan was secured by a mortgage on a parcel of land covered by Transfer Certificate of Title No. T-27418,[4] as evidenced by a Deed of Real Estate Mortgage[5] dated September 8, 1998.

On September 23, 1998, the parties executed a Deed of Absolute Sale[6] conveying the mortgaged property in favor of respondents. Subsequently, respondents gave petitioners an exclusive option to repurchase the land for P10,000,000. This was embodied in a document denominated as an Option to Buy[7] dated September 28, 1998. On this same document, respondents acknowledged receipt of a total sum of P10,000,000 as consideration for the purchase of the land.[8] The Option to Buy provided that if the option is exercised after December 5, 1998, the purchase price shall increase at the rate of P300,000 or 3% of the purchase price every month until September 5, 1999 and thereafter at the rate of P381,000 or 3.81% of the purchase price every month, with the fifth of every month as the cut-off date for said increases.[9]

On July 28, 2000, petitioners filed a Complaint[10] docketed as Civil Case No. 00-137 for reformation of instruments, abuse of rights and damages against respondents. Petitioners prayed that the Deed of Absolute Sale dated September 23, 1998 and Option to Buy dated September 28, 1998, be treated as an equitable mortgage instead of a sale.

At the pre-trial, the parties made the following stipulations: (1) the principal amount of P10,000,000 has long become overdue; (2) no payment has been made; (3) the

parties had agreed on an equitable mortgage and not a sale.[11] The parties limited the issues on the amount of interest due and the time of payment of the entire obligation. Thereafter, the court ordered the parties to submit their respective position papers, but only respondents complied. All other claims for damages were waived by the parties.[12]

On June 10, 2002, the trial court issued its Resolution, the pertinent portion of which reads:

> ...the document of mortgage specified the interest **at 3.81%** per month from the time it was obtained, and which was now estimated to be P7,239,000.00. This sum should be added to the total loan of TEN MILLION PESOS, . . .
>
> x x x x
>
> Therefore, judgment is rendered for defendants ROSALIE GANZON OLAN and GILBERT OLAN [and] ROWENA GANZON **since the loan is not denied**, **directing spouses [p]laintiffs JOVENAL TORING and CECILIA ESCALONA TORING, to pay the sum of TWENTY MILLION PESOS** within one month from receipt of this decision.
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> x x x x
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> It [i]s SO ORDERED.[13] (Emphasis supplied.)

Petitioners appealed, contending that the trial court erred in awarding interest. Petitioners stress that Article 1602[14] of the Civil Code governing equitable mortgages provides that any money, fruits or other benefit to be received by the vendee as rent or otherwise shall be considered as interest which shall be subject to the usury laws. Thus, there should have been no award of interest.

On March 28, 2005, the Court of Appeals affirmed the trial court's ruling, as follows:

> WHEREFORE, the June 10, 2002 Resolution of the Regional Trial Court, Branch 276, Muntinlupa City, is hereby AFFIRMED.
>
> SO ORDERED.[15]

Their motion for reconsideration having been denied, petitioners now come before us raising the sole issue:

> WHETHER OR NOT THE HONORABLE COURT OF APPEALS COMMITTED A REVERSIBLE ERROR IN DENYING PETITIONERS' APPEAL AND IN AFFIRMING THE DECISION OF [THE] TRIAL COURT DATED JUNE 10, 2002.[16]

Simply put, the issue is: Did the Court of Appeals err in sustaining the trial court's ruling upholding the 3% and 3.81% stipulated monthly interest?

Petitioners contend that they are not liable to pay interest as the stipulated monthly rates of 3% and 3.81%[17] are unconscionable. Petitioners further contend that the

reformed instrument, *i.e.*, the Option to Buy dated September 28, 1998, did not mention any rate of interest chargeable to the loan but rather, an escalation[18] of the purchase price.

On the other hand, respondents maintain that petitioners are liable to pay interest based on the Deed of Absolute Sale and Option to Buy executed by the parties. Respondents assert that the P300,000 and P381,000 differences per month as stated in the Option to Buy represents the 3% or 3.81% interest to be charged on the loan. Respondents further assert that the 3% or 3.81% interest is not usurious since Central Bank Circular No. 905-82[19] removed the ceiling on interest rates on secured and unsecured loans.

In resolving the issue in this controversy, we have agreed to focus our attention on the basic provisions of statutes as well as the prior decisions of this Court bearing on rates of interest on monetary obligations.

In a loan or forbearance of money, according to the Civil Code, the interest due should be that stipulated in writing,[20] and in the absence thereof, the rate shall be 12% per annum.[21]

The first time that the parties in this case entered into a loan transaction was on September 4, 1998 when petitioners obtained the P6,000,000 loan from respondents. Based on the Deed of Real Estate Mortgage dated September 8, 1998 embodying the promissory note dated September 4, 1998, the parties agreed on an interest rate of 3% per month.

The second and third times that the parties transacted were on September 23 and 28, 1998 when they executed the Deed of Absolute Sale and the Option to Buy, respectively. These two documents were the instruments reformed in Civil Case No. 00-137, where both parties agreed that the transactions embodied therein were really that of an equitable mortgage. The stipulation in a contract sharply escalating the repurchase price every month is for the purpose of securing the return of money invested with substantial profit or interest.[22] Undoubtedly, the P300,000 and P381,000 successive increases stated in the Option to Buy represent the monthly interest which respondents sought to recover from petitioners.

While the parties are free to stipulate on the interest to be imposed on monetary obligations, the Court will temper interest rates if they are unconscionable.[23] Even if the Usury Law has been suspended by Central Bank Circular No. 905-82, and parties to a loan agreement have been given wide latitude to agree on any interest rate, we have held that stipulated interest rates are illegal if they are unconscionable.[24] Consequently, in our view, the Court of Appeals erred in sustaining the trial court's decision upholding the stipulated interest of 3% and 3.81%. Thus, we are unanimous now in our ruling to reduce the above stipulated interest rates to 1% per month, in conformity with our ruling in *Ruiz v. Court of Appeals*.[25] For as well stressed in that case:

> ... Nothing in the said circular [CB Circular No. 905, s. 1982] 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.