

THIRD DIVISION

[G.R. No. 101771, December 17, 1996]

**SPOUSES MARIANO AND GILDA FLORENDO, PETITIONERS, VS.
COURT OF APPEALS AND LAND BANK OF THE PHILIPPINES,
RESPONDENTS.**

DECISION

PANGANIBAN, J.:

May a bank unilaterally raise the interest rate on a housing loan granted an employee, by reason of the voluntary resignation of the borrower?

Such is the query raised in the petition for review on certiorari now before us, which assails the Decision promulgated on June 19, 1991 by respondent Court of Appeals^[1] in CA-G.R. CV No. 24956, upholding the validity and enforceability of the escalation by private respondent Land Bank of the Philippines of the applicable interest rate on the housing loan taken out by petitioner-spouses.

The Antecedent Facts

Petitioners filed an action for Injunction with Damages docketed as Civil Case No. 86-38146 before the Regional Trial Court of Manila, Branch XXII against respondent bank. Both parties, after entering into a joint stipulation of facts, submitted the case for decision on the basis of said stipulation and memoranda. The stipulation reads in part:^[2]

- "1. That (Petitioner) Gilda Florendo (was) an employee of (Respondent Bank) from May 17, 1976 until August 16, 1984 when she voluntarily resigned. However, before her resignation, she applied for a housing loan of P148,000.00, payable within 25 years from (respondent bank's) Provident Fund on July 20, 1983;
2. That (petitioners) and (respondent bank), through the latter's duly authorized representative, executed the Housing Loan Agreement, x x x ;
3. That, together with the Housing Loan Agreement, (petitioners) and (respondent bank), through the latter's authorized representative, also executed a Real Estate Mortgage and Promissory Note, x x x;
4. That the loan x x x was actually given to (petitioner) Gilda Florendo, x x x, in her capacity as employee of (respondent bank);
5. That on March 19, 1985, (respondent bank) increased the interest rate on (petitioner's) loan from 9% per annum to 17%, the said increase to take effect on March 19, 1985;

6. That the details of the increase are embodied in (Landbank's) ManCom Resolution No. 85-08 dated March 19, 1985, x x x, and in a PF (Provident Fund) Memorandum Circular (No. 85-08, Series of 1985), x x x;

7. That (respondent bank) first informed (petitioners) of the said increase in a letter dated June 7, 1985, x x x. Enclosed with the letter are a copy of the PF Memo Circular x x x and a Statement of Account as of May 31, 1985, x x x;

8. That (petitioners) protested the increase in a letter dated June 11, 1985 to which (respondent bank) replied through a letter dated July 1, 1985, x x x. Enclosed with the letter is a Memorandum dated June 26, 1985 of (respondent bank's) legal counsel, A.B.F. Gaviola, Jr., x x x;

9. That thereafter, (respondent bank) kept on demanding that (petitioner) pay the increased interest or the new monthly installments based on the increased interest rate, but Plaintiff just as vehemently maintained that the said increase is unlawful and unjustifiable. Because of (respondent bank's) repeated demands, (petitioners) were forced to file the instant suit for Injunction and Damages;

10. That, just the same, despite (respondent bank's) demands that (petitioners) pay the increased interest or increased monthly installments, they (petitioners) have faithfully paid and discharged their loan obligations, more particularly the monthly payment of the original stipulated installment of P1,248.72. Disregarding (respondent bank's) repeated demand for increased interest and monthly installment, (petitioners) are presently up-to-date in the payments of their obligations under the original contracts (Housing Loan Agreement, Promissory Note and Real Estate Mortgage) with (respondent bank);

x x x x x x x x x"

The clauses or provisions in the Housing Loan Agreement and the Real Estate Mortgage referred to above as the basis for the escalation are:

a. Section I-F of Article VI of the Housing Loan Agreement,^[3] which provides that, for as long as the loan or any portion thereof or any sum that may be due and payable under the said loan agreement remains outstanding, the borrower shall --

"f) Comply with all the rules and regulations of the program imposed by the LENDER and to comply with all the rules and regulations that the Central Bank of the Philippines has imposed or will impose in connection with the financing programs for bank officers and employees in the form of fringe benefits."

b. Paragraph (f) of the Real Estate Mortgage^[4] which states:

"The rate of interest charged on the obligation secured by this mortgage

x x x, shall be Subject, during the life of this contract, to such an increase/decrease in accordance with prevailing rules, regulations and circulars of the Central Bank of the Philippines as the Provident Fund Board of Trustees of the Mortgagee may prescribe for its debtors and subject to the condition that the increase/decrease shall only take effect on the date of effectivity of said increase/decrease and shall only apply to the remaining balance of the loan."

c. and ManCom (Management Committee) Resolution No. 85-08, together with PF (Provident Fund) Memorandum Circular No. 85-08, which escalated the interest rates on outstanding housing loans of bank employees who voluntarily "secede" (resign) from the Bank; the range of rates varied depending upon the number of years service rendered by the employees concerned. The rates were made applicable to those who had previously resigned from the bank as well as those who would be resigning in the future.

The trial court ruled in favor of respondent bank, and held that the bank was vested with authority to increase the interest rate (and the corresponding monthly amortizations) pursuant to said escalation provisions in the housing loan agreement and the mortgage contract. The dispositive portion of the said decision reads:^[5]

"WHEREFORE, judgment is hereby rendered denying the instant suit for injunction and declaring that the rate of interest on the loan agreement in question shall be 17% per annum and the monthly amortization on said loan properly raised to P2,064.75 a month, upon the finality of this judgment.

x x x x x x x x x x."

Petitioners promptly appealed, arguing that, *inter alia*, the increased rate of interest is onerous and was imposed unilaterally, without the consent of the borrower-spouses. Respondent bank likewise appealed and contested the propriety of having the increased interest rate apply only upon the finality of the judgment and not from March 19, 1985.

The respondent Court subsequently affirmed with modification the decision of the trial court, holding that:^[6]

"x x x Among the salient provisions of the mortgage is paragraph (f) which provides that the interest rate shall be subject, during the term of the loan, to such increases/decreases as may be allowed under the prevailing rules and/or circulars of the Central Bank and as the Provident Fund of the Bank may prescribe for its borrowers. In other words, the spouses agreed to the escalation of the interest rate on their original loan. Such an agreement is a contractual one and the spouses are bound by it. Escalation clauses have been ruled to be valid stipulations in contracts in order to maintain fiscal stability and to retain the value of money in long term contracts (*Insular Bank of Asia and America vs. Spouses Epifania Salazar and Ricardo Salazar*, 159 SCRA 133). One of the conditions for the validity of an escalation clause such as the one which refers to an increase rate is that the contract should also contain a proviso for a decrease when circumstances so warrant it. Paragraph (f)

referred to above contains such provision.

A contract is binding on the parties no matter that a provision thereof later proves onerous and which on hindsight, a party feels he should not have agreed to in the first place."

and disposed as follows:^[7]

"WHEREFORE, the dispositive part of the decision is MODIFIED in the sense that the interest of 17% on the balance of the loan of the spouses shall be computed starting July 1, 1985."

Dissatisfied, the petitioners had recourse to this Court.

The Issues

Petitioners ascribe to respondent Court "a grave and patent error" in not nullifying the respondent bank's unilateral increase of the interest rate and monthly amortizations of the loan --

"1. x x x (simply because of) a bare and unqualified stipulation that the interest rate may be increased;

2. x x x on the ground that the increase has no basis in the contracts between the parties;

3. x x x on the ground that the increase violates Section 7-A of the Usury Law;

4. x x x on the ground that the increase and the contractual provision that (respondent bank) relies upon for the increase are contrary to morals, good customs, public order and public policy."^[8]

The key issue may be simply presented as follows: Did the respondent bank have a valid and legal basis to impose an increased interest rate on the petitioners' housing loan?

The Court's Ruling **Basis for Increased Interest Rate**

Petitioners argue that the HLA provision covers only administrative and other matters, and does not include interest rates per se, since Article VI of the agreement deals with insurance on and upkeep of the mortgaged property. As for the stipulation in the mortgage deed, they claim that it is vague because it does not state if the "prevailing" CB rules and regulations referred to therein are those prevailing at the time of the execution of these contracts or at the time of the increase or decrease of the interest rate. They insist that the bank's authority to escalate interest rates has not been shown to be "crystal-clear as a matter of fact" and established beyond doubt. The contracts being "contracts of adhesion," any vagueness in their provisions should be interpreted in favor of petitioners.

We note that Section 1-F of Article VI of the HLA cannot be read as an escalation clause as it does not make any reference to increases or decreases in the interest