



Republic of the Philippines
Supreme Court
Manila

SECOND DIVISION

PLANTERS DEVELOPMENT BANK,
Petitioner,

G.R. No. 186332

Present:

- versus -

CARPIO, J.,
Chairperson,
VELASCO, JR.,*
BRION,
REYES,** and
PERLAS-BERNABE, JJ.

**SPOUSES ERNESTO LOPEZ and
FLORENTINA LOPEZ, substituted by
JOSEPH WILFRED JOVEN, JOSEPH
GILBERT JOVEN and MARLYN
JOVEN,**

Respondents.

Promulgated:

OCT 23 2013

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DECISION

BRION, J.:

We resolve the petition for review on *certiorari*¹ filed by petitioner Planters Development Bank (*Planters Bank*) to challenge the July 30, 2007 amended decision² and the February 5, 2009 resolution³ of the Court of Appeals (CA) in CA-G.R. CV No. 61358.

The Factual Antecedents

Sometime in 1983, the spouses Ernesto and Florentina Lopez applied for and obtained a real estate loan in the amount of ₱3,000,000.00 from

* Designated as Acting Member in lieu of Associate Justice Jose P. Perez, per Special Order No. 1567 dated October 11, 2013.

** Designated as Acting Member in lieu of Associate Justice Mariano C. del Castillo, per Special Order No. 1564 dated October 11, 2013.

¹ Dated February 24, 2009 and filed under Rule 45 of the Rules of Court; *rollo*, pp. 3-30.

² Id. at 34-65; penned by Presiding Justice Ruben T. Reyes, and concurred in by Associate Justices Juan Q. Enriquez, Jr. and Vicente S. E. Veloso.

³ Id. at 67-69; penned by Associate Justice Arturo G. Tayag, and concurred in by Associate Justices Martin S. Villarama, Jr. and Noel G. Tijam.

Planters Bank. The loan was intended to finance the construction of a *four-story concrete dormitory building*. The **loan agreement**⁴ dated May 18, 1983 provided that the loan is payable for fourteen (14) years and shall bear a monetary interest at twenty-one percent (21%) per annum (*p.a.*). *Furthermore, partial drawdowns on the loan shall be based on project completion, and shall be allowed upon submission of job accomplishment reports by the project engineer.* To secure the payment of the loan, the spouses Lopez **mortgaged** a parcel of land covered by Transfer Certificate of Title No. T-16233.⁵

On July 21, 1983, the parties signed an **amendment to the loan agreement**. Accordingly, the interest rate was increased to twenty-three percent (23%) *p.a.* and the term of the loan was shortened to three years.⁶ On March 9, 1984, the parties executed a **second amendment to the loan agreement**. The interest rate was further increased to twenty-five percent (25%) *p.a.* The contract also provided that releases on the loan shall be subject to Planters Bank's availability of funds.⁷

Meanwhile, the Philippine economy deteriorated as the political developments in the country worsened. The value of the peso plunged. The price of the materials and the cost of labor escalated.⁸ Eager to finish the project, the spouses Lopez obtained an additional loan in the amount of ₱1,200,000.00 from Planters Bank.

On April 25, 1984, they entered into a **third amendment to the loan agreement**. The amount of the loan and the interest rate were increased to ₱4,200,000.00 and twenty-seven percent (27%) *p.a.*, respectively. Furthermore, the term of the loan was shortened to one year. The contract also provided that the remaining loan shall only be available to the spouses Lopez until June 30, 1984.⁹ On the same date, the spouses Lopez **increased the amount secured by the mortgage** to ₱4,200,000.00.¹⁰ On August 15, 1984, Planters Bank unilaterally increased the interest rate to thirty-two percent (32%) *p.a.*¹¹

The spouses Lopez failed to avail the full amount of the loan because Planters Bank refused to release the remaining amount of ₱700,000.00. On October 13, 1984, the spouses Lopez filed against Planters Bank a

⁴ Id. at 76-85.

⁵ Id. at 86-87.

⁶ Id. at 91-93.

⁷ Id. at 96-98.

⁸ RTC *rollo*, Volume 3, p. 29.

⁹ *Rollo*, pp. 99-103.

¹⁰ Id. at 94-95.

¹¹ Id. at 39.

complaint for rescission of the loan agreements and for damages with the Regional Trial Court (RTC) of Makati City.¹² They alleged that they could not continue the construction of the dormitory building because Planters Bank had refused to release the remaining loan balance.

In defense, Planters Bank argued that the spouses Lopez had no cause of action. It pointed out that its refusal to release the loan was the result of the spouses Lopez's violations of the loan agreement, namely: (1) non-submission of the accomplishment reports; and (2) construction of a six-story building. As a counterclaim, Planters Bank prayed for the payment of the overdue released loan in the amount of ₱3,500,000.00, with interest and damages.¹³

*On November 16, 1984, Planters Bank foreclosed the mortgaged properties in favor of third parties after the spouses Lopez defaulted on their loan.*¹⁴

The RTC Ruling

In a decision¹⁵ dated August 18, 1997, the RTC ruled in Planters Bank's favor. It held that the spouses Lopez had no right to rescind the loan agreements because they were not the injured parties. It maintained that the spouses Lopez violated the loan agreement by failing to submit accomplishment reports and by deviating from the construction project plans. It further declared that rescission could not be carried out because the mortgaged properties had already been sold in favor of third parties. The dispositive portion of the RTC decision provides:

IN VIEW OF THE FOREGOING, judgment is hereby rendered ordering the plaintiffs to pay the defendant-bank the amount of Three Million Five Hundred Thousand Pesos (₱3,500,000.00) plus the 27% stipulated interest per annum commencing on **June 22, 1994** until fully paid minus the proceeds of the foreclosed mortgaged property in the auction sale.¹⁶ (emphasis ours)

Subsequently, the RTC amended¹⁷ its decision, upon Planters Bank's filing of a Motion for Partial Reconsideration and/or Amendment of the Decision dated August 18, 1997.¹⁸ It clarified that the interest rate shall commence on June 22, 1984, as proven during trial, thus:

¹² RTC *rollo*, Volume 1, pp. 1-11.

¹³ Id. at 19-27.

¹⁴ *Rollo*, p. 104.

¹⁵ Id. at 161-165; penned by Judge Eriberto Rosario, Jr.

¹⁶ Id. at 164-165.

¹⁷ Id. at 172-173.

¹⁸ Id. at 166-171.

IN VIEW OF THE FOREGOING, judgment is hereby rendered ordering the plaintiffs to pay the defendant-bank the amount of Three Million Five Hundred Thousand Pesos (₱3,500,000.00) plus the 27% stipulated interest per annum commencing on **June 22, 1984** until fully paid minus the proceeds of the foreclosed mortgaged property in the auction sale.¹⁹ (emphasis ours)

CA Ruling

The spouses Lopez died during the pendency of the case. On appeal to the CA, compulsory heirs Joseph Wilfred, Joseph Gilbert and Marlyn, all surnamed Joven²⁰ (*respondents*) substituted for the deceased Florentina Lopez.

On November 27, 2006, the CA reversed the RTC ruling.²¹ It held that Planters Bank's refusal to release the loan was a substantial breach of the contract. It found that the spouses Lopez submitted accomplishment reports. It gave weight to Engineer Edgard Fianza's testimony that he prepared accomplishment reports prior to the release of the funds. Moreover, Planters Bank's appraisal department head, Renato Marayag, testified that accomplishment reports were a prerequisite for the release of the loan.

It also declared that Planters Bank was estopped from raising the issue of the spouses Lopez's deviation from the construction project. Planters Bank conducted several ocular inspections of the building from 1983 to 1987. Planters Bank continuously released partial amounts of the loan despite its knowledge of the construction of a six-story building.

It further concluded that Planters Bank did not release the loan because the Development Bank of the Philippines (*DBP*) lacked funds. Ma. Agnes Jopson Angeles, Planters Bank's senior accountant for the marketing group, testified that Planters Bank's source of funds in real estate loans was DBP. According to the CA, Angeles admitted DBP's non-availability of funds in her testimony. The dispositive ruling of the CA decision provides:

WHEREFORE, the appealed Decision is MODIFIED in that the loan interest to be paid by plaintiff-appellant to defendant-appellee is hereby reduced to 12% per annum computed from finality of this Decision until full payment of the amount of ₱3.5 million, minus the proceeds of auction sale of the foreclosed mortgaged property.²²

¹⁹ Id. at 173.

²⁰ CA *rollo*, p. 116.

²¹ *Rollo*, pp. 175-203.

²² Id. at 202.

Subsequently, the respondents filed a motion for reconsideration. They sought clarification of the dispositive portion which does not declare the rescission of the loan and accessory contracts. On the other hand, Planters Bank filed a Comment on March 2, 2007, praying for the reinstatement of the RTC ruling. The CA **re-examined** the case and treated the comment as a motion for reconsideration. It affirmed its previous decision but modified the dispositive portion, thus:

ACCORDINGLY, defendant-appellee's motion for reconsideration is **DENIED** while plaintiffs-appellants' motion for reconsideration is **PARTLY GRANTED**. The dispositive part of Our Decision dated November 27, 2006 is hereby clarified and corrected to read as follows:

WHEREFORE, the appealed Decision is **REVERSED and SET ASIDE**. The loan agreement between the parties, including all its accessory contracts, is declared RESCINDED.

Plaintiffs-appellants are ordered to return to defendant-appellee bank the amount of ₱2,885,830.56 with interest of twelve percent (12%) per annum from the time this Decision becomes final and executory until it is fully paid.

Defendant-appellee bank is ordered to convey and restore to plaintiffs-appellants the foreclosed property.²³ (emphases and underscores supplied)

The CA also denied Planters Bank's Motion for Reconsideration dated August 22, 2007, prompting it to file the present petition.

The Petitioner's Position

Planters Bank reiterates in its petition before this Court that the respondents had no cause of action. It posits that the spouses Lopez violated the loan agreements for their failure to submit accomplishment reports and by constructing a six-story building instead of a four-story building. It maintains that there was no estoppel because only one year and twenty days have elapsed from the violation of the contract until the spouses Lopez's filing of the complaint. It argues that there must be an unjustifiable neglect for an unreasonable period of time for estoppel to apply. It also avers that even assuming that it breached the contract, it was only a slight breach because only ₱700,000.00 of the ₱4,200,000.00 loan was not released. Moreover, it highlights that it cannot convey the foreclosed properties because they were already sold to third parties.²⁴

²³ *Rollo*, pp. 64-65.

²⁴ *Supra* note 1.

Planters Bank also clarifies its date of receipt of the CA amended decision in a Manifestation dated March 13, 2009.²⁵ It states that it received the amended decision on August 7, 2007, as evidenced by the attached certifications from the Makati and Manila Central Post Offices.

The Respondents' Position

In their *Comments*,²⁶ the respondents reiterate the CA's arguments. They also assert that the amended decision has already become final and executory due to Planters Bank's belated filing of a motion for reconsideration on August 22, 2007. They point out that Planters Bank unequivocally stated in the pleadings that it received a copy of the amended decision on August 2, 2007. Furthermore, they aver that Planters Bank's motion for reconsideration is a second motion for reconsideration disallowed by the Rules of Court. They highlight that Planters Bank's comment to the respondents' motion for reconsideration sought the reinstatement of the RTC ruling. Consequently, the comment is Planters Bank's first motion for reconsideration.

The Issues

This case presents to us the following issues:

- 1) Whether the CA's amended decision dated July 30, 2007 is final and executory;
- 2) Whether the spouses Lopez violated the loan agreement;
 - a) Whether the spouses Lopez submitted accomplishment reports, and
 - b) Whether the spouses Lopez deviated from the construction project;
- 3) Whether Planters Bank substantially breached the loan agreement; and
- 4) Whether the amount of awards rendered by the CA is proper.

The Court's Ruling

We reverse the CA's decision.

²⁵ *Rollo*, pp. 221-225.

²⁶ *Id.* at 270-282.

The CA's amended decision dated July 30, 2007 is not yet final and executory

Section 13, Rule 13 of the Rules of Court provides that if service is made by registered mail, proof shall be made by an **affidavit** of the person mailing of facts showing compliance with Section 7, Rule 13 of the Rules of Court and the **registry receipt** issued by the mailing office. **However, the presentation of an affidavit and a registry receipt is not indispensable in proving service by registered mail.** Other competent evidence, such as the certifications from the Philippine Post Office, may establish the fact and date of actual service. These certifications are direct and primary pieces of evidence of completion of service.²⁷

We believe Planters Bank's assertion that its motion for reconsideration dated August 22, 2007 was filed on time. The Manila Central Post Office's certification states that the amended decision was only dispatched from the Manila Central Post Office to the Makati Central Post Office on August 2, 2007.²⁸ On the other hand, the Makati Central Post Office's certification provides that Planters Bank's actual receipt of the decision was on August 7, 2007.²⁹ These certifications conclusively show that Planters Bank's counsel received the amended decision on August 7, 2007 and not on August 2, 2007.

There is also no merit to the respondents' argument that Planters Bank's motion for reconsideration is disallowed under Section 2, Rule 52 of the Rules of Court.³⁰ We point out in this respect that there is a difference between an *amended judgment* and a *supplemental judgment*. In an amended judgment, the lower court makes a thorough study of the original judgment and renders the amended and clarified judgment only after considering all the factual and legal issues. **The amended and clarified decision is an entirely new decision which supersedes or takes the place of the original decision.** On the other hand, a supplemental decision does not take the place of the original; it only serves to add to the original decision.³¹

²⁷ *Cortes v. Valdellon, etc., et al.*, 162 Phil. 745, 753 (1976).

²⁸ *Rollo*, p. 260.

²⁹ *Id.* at 259.

³⁰ Section 2, Rule 52 of the Rules of Court provides:

Section 2. *Second motion for reconsideration.* – No second motion for reconsideration of a judgment or final resolution by the same party shall be entertained. [italics supplied]

³¹ *Magdalena Estate, Inc. v. Hon. Caluag and Nava*, 120 Phil. 338, 342 (1964); and *Lee v. Trocino*, G.R. No. 164648, June 19, 2009, 590 SCRA 32, 37.

In the present case, the CA promulgated an *amended decision* because it re-examined its factual and legal findings in its original decision. Thus, Planters Bank may file a motion for reconsideration. The amended decision is an entirely *new decision* which replaced the CA's decision dated November 27, 2006.

In sum, the amended decision is not yet final and executory because Planters Bank filed a motion for reconsideration on time; its filing is allowed by the Rules of Court.

The spouses Lopez submitted accomplishment reports

We see no reason to disturb the CA's finding that the spouses Lopez religiously submitted accomplishment reports. The evidence on record³² shows that Engr. Fianza submitted accomplishment reports from November 19, 1983 until June 9, 1984. Engr. Fianza also testified that he prepared these accomplishment reports.³³ His testimony is corroborated by the testimony of Marayag, Planters Bank's appraisal department head.³⁴

³² CA *rollo*, Volume 3, pp. 59-60, 67-69.

³³ TSN, September 8, 1986, p. 13.

³⁴ TSN, February 2, 1988, pp. 7-14 -

Q: What about the other documents you showed us?

A: **I am familiar with this Progress Report.**

Q: Specifically, what document are you referring to? I noted that these are xerox copies, who had that xeroxed, will you tell the Court?

A: **Our policy then at Credit Department is we required (sic) the borrower to submit a copy of progress report to be prepared by the Engineer.**

x x x x

Court: In other words, the Court will assume that the originals are in the possession of the bank.

Atty. Cruz: **Yes, Your Honor, we admit.**

Atty. Monsanto: **Now, you mentioned progress reports. How many progress reports do you have in your possession?**

x x x x

A: **Three (3). The first one is the Bill of Materials.**

x x x x

Atty. Monsanto: At the time of the submission of these reports where were you connected then?

A: I was then the Head of the Appraisal Department.

x x x x

Q: I see. As Head of the Appraisal Department...By the way, what is the job of the Appraisal Department?

A: **Primarily, assistance to account of officers in terms of loan managing and for disposal of assets.**

This latter testimony shows that the spouses Lopez indeed submitted accomplishment reports.

Planters Bank is estopped from opposing the spouses Lopez's deviation from the construction project

We also affirm the CA's finding that Planters Bank is estopped from opposing the spouses Lopez's construction of a six-story building. Section 2, Rule 131 of the Rules of Court provides that whenever a party has, by his own declaration, act, or omission, intentionally and deliberately led another to believe that a particular thing is true, and to act upon such belief, he cannot, in any litigation arising out of such declaration, act or omission, be permitted to falsify it.

The concurrence of the following requisites is necessary for the principle of equitable estoppel to apply: (a) conduct amounting to false representation or concealment of material facts or at least calculated to convey the impression that the facts are otherwise than, and inconsistent with, those which the party subsequently attempts to assert; (b) intent, or at least expectation that this conduct shall be acted upon, or at least influenced by the other party; and (c) knowledge, actual or constructive, of the actual facts.

Inaction or silence may under some circumstances amount to a misrepresentation, so as to raise an equitable estoppel. When the silence is of such a character and under such circumstances that it would become a fraud on the other party to permit the party who has kept silent to deny what his silence has induced the other to believe and act on, it will operate as an estoppel. This doctrine rests on the principle that if one maintains silence, when in conscience he ought to speak, equity will debar him from speaking when in conscience he ought to remain silent.

Q: There be any project in progress what do you do as head of the Department of Appraisal?

A: We require the borrower to submit a Progress Report.

Q: That is Standard Operating Procedure?

A: Yes.

Q: How often do you normally require the submission of progress reports?

A: Everytime the client request[s] for a release.

Q: Before any further release is made by the bank there is a progress report required and it is only upon the submission of this progress report and upon your satisfaction that you release funds to the client, is that correct?

A: That is right. [emphases ours]

The principle of equitable estoppel prevents Planters Bank from raising the spouses Lopez's violation of the loan agreement. Planters Bank was already aware that the spouses Lopez were building six floors as early as September 30, 1983. Records disclose that Planters Bank also conducted a series of ocular inspections.³⁵ Despite such knowledge, the bank kept silent on the violation of the loan agreement as Planters Bank still continued to release the loan in partial amounts to the spouses Lopez. As the CA correctly pointed out, Planters Bank only raised this argument during trial – a move that highly appears to be an afterthought.

Planters Bank only committed a slight or casual breach of the contract

Despite our affirmation of the CA's factual findings, we disagree with the CA's conclusion that rescission is proper. Planters Bank indeed incurred in delay by not complying with its obligation to make further loan releases.³⁶ Its refusal to release the remaining balance, however, was merely a **slight or casual breach** as shown below. In other words, its breach was not sufficiently fundamental to defeat the object of the parties in entering into the loan agreement. The well-settled rule is that rescission will not be permitted for a slight or casual breach of the contract. The question of whether a breach of contract is substantial depends upon the attending circumstances.³⁷

The factual circumstances of this case lead us to the conclusion that Planters Bank substantially complied with its obligation. To reiterate, Planters Bank released ₱3,500,000.00 of the ₱4,200,000.00 loan. Only the amount of ₱700,000.00 was not released. This constitutes 16.66% of the entire loan. Moreover, the progress report dated May 30, 1984 states that

³⁵ RTC rollo, Volume 3, pp. 157-159, 163-172.

³⁶ Article 1169 of the Civil Code provides:

Article 1169. Those obliged to deliver or to do something incur in delay from the time the obligee judicially or extrajudicially demands from them the fulfillment of their obligation.

However, the demand by the creditor shall not be necessary in order that delay may exist:

- (1) When the obligation or the law expressly so declare; or
- (2) When from the nature and the circumstances of the obligation it appears that the designation of the time when the thing is to be delivered or the service is to be rendered was a controlling motive for the establishment of the contract; or
- (3) When demand would be useless, as when the obligor has rendered it beyond his power to perform.

In reciprocal obligations, neither party incurs in delay if the other does not comply or is not ready to comply in a proper manner with what is incumbent upon him. From the moment one of the parties fulfills his obligation, delay by the other begins. (1100a)

³⁷ *Ang v. Court of Appeals*, 252 Phil. 292, 303 (1989).

85% of the six-story building was already completed by the spouses Lopez.³⁸ It is also erroneous to solely impute the non-completion of the building to Planters Bank. *Planters Bank is not an insurer of the building's construction.* External factors, such as the steep price of the materials and the cost of labor, affected the erection of the building. More importantly, the spouses Lopez took the risk that the project would not be finished when they constructed a six-story building instead of four-story structure.

Even assuming that Planters Bank substantially breached its obligation, the fourth paragraph of Article 1191 of the Civil Code expressly provides that rescission is without prejudice to the rights of third persons who have acquired the thing, in accordance with Article 1385 of the Civil Code. In turn, Article 1385 states that **rescission cannot take place when the things which are the object of the contract are legally in the possession of third persons who did not act in bad faith.**

In the present case, the mortgaged properties had already been foreclosed. They were already sold to the highest bidder at a public auction. We recognize that transferees *pendente lite* are proper, but not indispensable, parties in this case, as they would, in any event, be bound by the judgment against Planters Bank.³⁹ However, the respondents did not overcome the presumption that the buyers bought the foreclosed properties in good faith.⁴⁰ The spouses Lopez did not cause the annotation of notice of *lis pendens* at the back of the title of the mortgaged lot.⁴¹ Moreover, the respondents did not adduce any evidence that would show that the buyers bought the property with actual knowledge of the pendency of the present case.

Furthermore, the spouses Lopez's failure to pay the overdue loan made them parties in default, not entitled to rescission under Article 1191 of the Civil Code.

The estate of Florentina Lopez shall pay Planters Bank the amount of ₱3,500,000.00 with 12% monetary interest p.a. from June 22, 1984 until full payment of the obligation

Planters Bank and the spouses Lopez undertook reciprocal obligations when they entered into a loan agreement. In reciprocal obligations, the obligation or promise of each party is the consideration for

³⁸ *RTC rollo*, Volume 3, p. 167.

³⁹ *Santiago Land Dev't. Corp. v. CA*, 334 Phil. 741, 747-749 (1997).

⁴⁰ RULES OF COURT, Section 2(p), Rule 131.

⁴¹ *Id.*, Section 14, Rule 13.

that of the other. The mere pecuniary inability of one contracting party to fulfill an engagement does not discharge the other contracting party of the obligation in the contract.⁴² Planters Bank's slight breach does not excuse the spouses Lopez from paying the overdue loan in the amount of ₱3,500,000.00. **Despite this finding, however, we cannot sustain the imposition of the interest rate in the loan contract.**

We are aware that the parties did not raise this issue in the pleadings. However, it is a settled rule that an appeal throws the entire case open for review once accepted by this Court. This Court has thus the authority to review matters not specifically raised or assigned as error by the parties, if their consideration is necessary in arriving at a just resolution of the case.⁴³

In the present case, Planters Bank *unilaterally* increased the monetary interest rate to 32% p.a. after the execution of the third amendment to the loan agreement. This is patently violative of the element of mutuality of contracts. Our Civil Code has long entrenched the basic principle that the validity of or compliance to the contract cannot be left to the will of one party.⁴⁴

Even if we disregard the 32% p.a., the interest rate of 27% p.a. in the third amended agreement is still excessive. In *Trade & Investment Dev't Corp. of the Phil. v. Roblett Industrial Construction Corp.*,⁴⁵ we lowered the interest resulting charge for being excessive **in the context of its computation period**. We equitably reduced the interest rate from 18% p.a. to 12% p.a. because the case was decided with finality *sixteen years* after the filing of the complaint. We noted that the amount of the loan *swelled to a considerably disproportionate sum*, far exceeding the principal debt.

A parallel situation prevails in the present case. Almost *29 years* have elapsed since the filing of the complaint in 1984. The amount of the principal loan already ballooned to an exorbitant amount unwarranted in fact and in operation. While the Court recognizes the right of the parties to enter into contracts, this rule is not absolute. We are allowed to temper interest rates when necessary. We have thus ruled in several cases that when the agreed rate is iniquitous, it is considered as contrary to morals, if not against the law. Such stipulation is void.⁴⁶

⁴² *Central Bank of the Phil. v. Court of Appeals*, 223 Phil. 266, 273 (1985).

⁴³ *Aliling v. Feliciano*, G.R. No. 185829, April 25, 2012, 671 SCRA 186, 199, citing *Sociedad Europea de Financiacion SA v. CA*, G.R. No. 75787, January 21, 1991, 193 SCRA 105, 114.

⁴⁴ Article 1308 of the Civil Code provides:

Article 1308. The contract must bind both contracting parties; its validity or compliance cannot be left to the will of one of them.

⁴⁵ 523 Phil. 362, 367 (2006).

⁴⁶ *Imperial v. Jaucian*, 471 Phil. 484, 494-495 (2004); and *Castro v. Tan*, G.R. No. 168940, November 24, 2009, 605 SCRA 231, 237-238.

The manifest unfairness caused to the respondents by this ruling and our sense of justice dictate that we judiciously reduce the monetary interest rate. Our imposition of the lower interest rate is based on the demands of substantial justice and in the exercise of our equity jurisdiction.

We thus equitably reduce the monetary interest rate to 12% p.a. on the amount due computed from June 22, 1984 until full payment of the obligation. We point out in this respect that the monetary interest accrues under the terms of the loan agreement until actual payment is effected⁴⁷ for the reason that its imposition is based on the stipulation of the parties.⁴⁸ In the present case, the lower courts found that the monetary interest accrued on June 22, 1984. Incidentally, the lower courts also found that June 22, 1984 is also the spouses Lopez's date of default.

The estate of Florentina Lopez shall further be liable for compensatory interest at the rates of 12% p.a. from June 22, 1984 until June 30, 2013 and 6% p.a. from July 1, 2013 until the finality of this Decision

With respect to the computation of compensatory interest, Section 1 of Bangko Sentral ng Pilipinas (BSP) Circular No. 799, Series of 2013, which took effect on July 1, 2013, provides:

Section 1. The rate of interest for the loan or forbearance of any money, goods or credits and the rate allowed in judgments, in the absence of an express contract as to such rate of interest, shall be **six percent (6%) per annum**. [emphasis ours]

This provision amends Section 2 of Central Bank (CB) Circular No. 905-82, Series of 1982, which took effect on January 1, 1983. Notably, we recently upheld the constitutionality of CB Circular No. 905-82 in *Advocates for Truth in Lending, Inc., et al. v. Bangko Sentral ng Pilipinas Monetary Board, etc.*⁴⁹ Section 2 of CB Circular No. 905-82 provides:

Section 2. The rate of interest for the loan or forbearance of any money, goods or credits and the rate allowed in judgments, in the absence of express contract as to such rate of interest, shall continue to be **twelve [percent] (12%) per annum**. [emphasis ours]

⁴⁷ *State Investment House, Inc. v. Court of Appeals*, G.R. No. 90676, June 19, 1991, 198 SCRA 390, 398.

⁴⁸ CIVIL CODE, Article 1956.

⁴⁹ G.R. No. 192986, January 15, 2013.

Pursuant to these changes, this Court modified the guidelines in *Eastern Shipping Lines, Inc. v. Court of Appeals*⁵⁰ in the case of *Dario Nacar v. Gallery Frames, et al.*⁵¹ (*Nacar*). In *Nacar*, we established the following guidelines:

- I. When an obligation, regardless of its source, i.e., law, contracts, quasi-contracts, delicts or quasi-delicts is breached, the contravenor can be held liable for damages. The provisions under Title XVIII on “Damages” of the Civil Code govern in determining the measure of recoverable damages.
- II. With regard particularly to an award of interest in the concept of actual and compensatory damages, the rate of interest, as well as the accrual thereof, is imposed, as follows:**

- 1. When the obligation is breached, and it consists in the payment of a sum of money, i.e., a loan or forbearance of money, the interest due should be that which may have been stipulated in writing. Furthermore, the interest due shall itself earn legal interest from the time it is judicially demanded. In the absence of stipulation, the rate of interest shall be 6% per annum to be computed from default, i.e., from judicial or extrajudicial demand under and subject to the provisions of Article 1169 of the Civil Code.**
2. When an obligation, not constituting a loan or forbearance of money, is breached, an interest on the amount of damages awarded may be imposed at the discretion of the court at the rate of 6% per annum. No interest, however, shall be adjudged on unliquidated claims or damages, except when or until the demand can be established with reasonable certainty. Accordingly, where the demand is established with reasonable certainty, the interest shall begin to run from the time the claim is made judicially or extrajudicially (Art. 1169, Civil Code), but when such certainty cannot be so reasonably established at the time the demand is made, the interest shall begin to run only from the date the judgment of the court is made (at which time the quantification of damages may be deemed to have been reasonably ascertained). The actual base for the computation of legal interest shall, in any case, be on the amount finally adjudged.
3. When the judgment of the court awarding a sum of money becomes final and executory, the rate of legal interest, whether the case falls under paragraph 1 or paragraph 2, above, shall be 6% per annum from such finality until its satisfaction, this interim period being deemed to be by then an equivalent to a forbearance of credit.

⁵⁰ G.R. No. 97412, July 12, 1994, 234 SCRA 78.

⁵¹ G.R. No. 189871, August 13, 2013.

And, in addition to the above, judgments that have become final and executory prior to July 1, 2013, shall not be disturbed and shall continue to be implemented applying the rate of interest fixed therein. [emphasis ours]

Since we declare void the monetary interest agreed upon by the parties, we impose a compensatory interest of 12% p.a. which accrues from June 22, 1984 until June 30, 2013, pursuant to CB Circular No. 905-82.⁵² As we have earlier stated, June 22, 1984 is the spouses Lopez's established date of default. In recognition of the prospective application of BSP Circular No. 799, we reduce the compensatory interest of 12% p.a. to 6% p.a. from July 1, 2013 until the finality of this Decision. Furthermore, the interest due shall earn legal interest from the time it is judicially demanded, pursuant to Article 2212 of the Civil Code.

The estate of Florentina Lopez shall further be liable for interest at the rate of 6% p.a. from the finality of this decision until full payment of the obligation

Also, pursuant to the above-quoted Section 1 of BSP Circular No. 799, we impose an interest rate of 6% p.a. from the finality of this Decision until the obligation is fully paid, the interim period being deemed equivalent to a forbearance of credit.

Lastly, to prevent future litigation in the enforcement of the award, we clarify that **the respondents are not personally responsible for the debts of their predecessor**. The respondents' extent of liability to Planters Bank is limited to the value of the estate which they inherited from Florentina Lopez.⁵³ In our jurisdiction, "it is the estate or mass of the property left by the decedent, instead of the heirs directly, that becomes vested and charged with his rights and obligations which survive after his

⁵² In *Castelo v. CA*, 314 Phil. 1, 20 (1995), we explained:

Under Article 2209, the appropriate measure for damages in case of delay in discharging an obligation consisting of the payment of a sum of money is the *payment of penalty interest at the rate agreed upon in the contract of the parties*. In the absence of a stipulation of a particular rate of penalty interest, *payment of additional interest at a rate equal to the regular or monetary interest*, becomes due and payable. Finally, if no regular interest had been agreed upon by the contracting parties, then the damages payable will consist of payment of *legal interest* which is six percent (6%) or, in the case of loans or forbearances of money, twelve percent (12%) *per annum*. [italics supplied]

⁵³ Article 1311 of the Civil Code provides:

Article 1311. Contracts take effect only between the parties, their assigns and heirs, except in case where the rights and obligations arising from the contract are not transmissible by their nature, or by stipulation or by provision of law. **The heir is not liable beyond the value of the property he received from the decedent.** [emphasis ours]

death.”⁵⁴ To rule otherwise would unduly deprive the respondents of their properties.

WHEREFORE, premises considered, the assailed amended decision dated July 30, 2007 and resolution dated February 5, 2009 of the Court of Appeals are hereby **REVERSED**. Respondents Joseph Wilfred, Joseph Gilbert and Marlyn, all surnamed Joven, are ordered to pay **THREE MILLION FIVE HUNDRED THOUSAND PESOS (₱3,500,000.00)** with 12% monetary interest per annum commencing on June 22, 1984 until fully paid; 12% compensatory interest per annum commencing on June 22, 1984 until June 30, 2013; 6% compensatory interest per annum commencing on July 1, 2013 until the finality of this Decision; and 6% interest rate per annum commencing from the finality of this Decision until fully paid. The proceeds of the foreclosed mortgaged property in the auction sale shall be deducted from the principal of the loan from the time payment was made to Planters Bank and the remainder shall be the new principal from which the computation shall thereafter be made. Furthermore, the respondents’ liability is limited to the value of the inheritance they received from the deceased Florentina Lopez.

SO ORDERED.




ARTURO D. BRION
Associate Justice

WE CONCUR:



ANTONIO T. CARPIO
Associate Justice
Chairperson

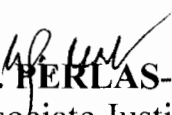
⁵⁴ Desiderio P. Jurado, *Comments and Jurisprudence on Obligations and Contracts*, 2002 ed., p. 375.



PRESBITERO J. VELASCO, JR.
Associate Justice




BIENVENIDO L. REYES
Associate Justice



ESTELA M. PERLAS-BERNABE
Associate Justice

ATTESTATION

I attest that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.



ANTONIO T. CARPIO
Associate Justice
Chairperson, Second Division

CERTIFICATION

Pursuant to Section 13, Article VIII of the Constitution, and the Division Chairperson's Attestation, I certify that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.



MARIA LOURDES P. A. SERENO
Chief Justice