



Republic of the Philippines  
Supreme Court  
Manila

SECOND DIVISION

ROLANDO C. DE LA PAZ,\*  
*Petitioner,*

G.R. No. 183360

Present:

- versus -

CARPIO, *Acting Chief Justice*,\*\*  
BRION,  
DEL CASTILLO,  
VILLARAMA, JR.,\*\*\* *and*  
LEONEN, JJ.

L & J DEVELOPMENT COMPANY,  
*Respondent.*

Promulgated:  
SEP 08 2014

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DECISION

DEL CASTILLO, J.:

“No interest shall be due unless it has been expressly stipulated in writing.”<sup>1</sup>

This is a Petition for Review on *Certiorari*<sup>2</sup> assailing the February 27, 2008 Decision<sup>3</sup> of the Court of Appeals (CA) in CA-G.R. SP No. 100094, which reversed and set aside the Decision<sup>4</sup> dated April 19, 2007 of the Regional Trial Court (RTC), Branch 192, Marikina City in Civil Case No. 06-1145-MK. The said RTC Decision affirmed in all respects the Decision<sup>5</sup> dated June 30, 2006 of the Metropolitan Trial Court (MeTC), Branch 75, Marikina City in Civil Case No. 05-7755, which ordered respondent L & J Development Company (L&J) to pay petitioner Architect Rolando C. De La Paz (Rolando) its principal obligation of

\* Also spelled as “Dela Paz” in some parts of the records.

\*\* Per Special Order No. 1770 dated August 28, 2014.

\*\*\* Per Special Order No. 1767 dated August 27, 2014.

<sup>1</sup> CIVIL CODE, Article 1956.

<sup>2</sup> *Rollo*, pp. 10-18

<sup>3</sup> CA *rollo*, pp. 82-89; penned by Associate Justice Lucas P. Bersamin (now a member of this Court) and concurred in by Associate Justices Portia Aliño Hormachuelos and Estela M. Perlas-Bernabe (now also a member of this Court).

<sup>4</sup> Id. at 18-26; penned by Judge Geraldine C. Fiel-Macaraig.

<sup>5</sup> Id. at 39-43; penned by Judge Alex E. Ruiz.

₱350,000.00, plus 12% interest *per annum* reckoned from the filing of the Complaint until full payment of the obligation.

Likewise assailed is the CA’s June 6, 2008 Resolution<sup>6</sup> which denied Rolando’s Motion for Reconsideration.

***Factual Antecedents***

On December 27, 2000, Rolando lent ₱350,000.00 without any security to L&J, a property developer with Atty. Esteban Salonga (Atty. Salonga) as its President and General Manager. The loan, with no specified maturity date, carried a 6% monthly interest, *i.e.*, ₱21,000.00. From December 2000 to August 2003, L&J paid Rolando a total of ₱576,000.00<sup>7</sup> representing interest charges.

As L&J failed to pay despite repeated demands, Rolando filed a Complaint<sup>8</sup> for Collection of Sum of Money with Damages against L&J and Atty. Salonga in his personal capacity before the MeTC, docketed as Civil Case No. 05-7755. Rolando alleged, among others, that L&J’s debt as of January 2005,

<sup>6</sup> Id. at 106.  
<sup>7</sup> Id. at 45-46. A total of 30 payments, L & J paid the following:

Date	Check No.	Amount
12/27/2000	SB 302190	₱ 21,000.00
1/29/2001	MBTC 435175	21,000.00
3/01/2001	SB 302232	21,000.00
4/30/2001	SB 302296	21,000.00
5/29/2001	SB 302341	21,000.00
6/30/2001	SB 302369	21,000.00
7/30/2001	MBTC 3160280305	21,000.00
8/29/2001	MBTC 3160280332	21,000.00
9/27/2001	MBTC 3160280349	21,000.00
10/29/2001	MBTC 3160280387	21,000.00
11/29/2001	MBTC 3160280421	21,000.00
12/18/2001	MBTC 3160280430	21,000.00
1/29/2002	MBTC 3160280474	21,000.00
2/28/2002	MBTC 3160280501	21,000.00
3/25/2002	MBTC 3160280517	21,000.00
4/29/2002	MBTC 3160280552	21,000.00
5/31/2002	MBTC 3160280588	21,000.00
7/02/2002	MBTC 3160280600	21,000.00
8/06/2002	MBTC 3160280627	21,000.00
8/29/2002	MBTC 3160280648	21,000.00
10/02/2002	MBTC 3160280666	21,000.00
11/12/2002	MBTC 3160280683	21,000.00
1/06/03		21,000.00
1/31/03		21,000.00
3/06/2003	ATB 435323	21,000.00
4/15/2003		16,000.00
5/14/2003		5,000.00
7/04/2003	MBTC 435345	5,000.00
8/04/2003		10,000.00
8/14/2003		<u>15,000.00</u>
Total		₱576,000.00

<sup>8</sup> Id. at 28-34.

inclusive of the monthly interest, stood at ₱772,000.00; that the 6% monthly interest was upon Atty. Salonga's suggestion; and, that the latter tricked him into parting with his money without the loan transaction being reduced into writing.

In their Answer,<sup>9</sup> L&J and Atty. Salonga denied Rolando's allegations. While they acknowledged the loan as a corporate debt, they claimed that the failure to pay the same was due to a fortuitous event, that is, the financial difficulties brought about by the economic crisis. They further argued that Rolando cannot enforce the 6% monthly interest for being unconscionable and shocking to the morals. Hence, the payments already made should be applied to the ₱350,000.00 principal loan.

During trial, Rolando testified that he had no communication with Atty. Salonga prior to the loan transaction but knew him as a lawyer, a son of a former Senator, and the owner of L&J which developed Brentwood Subdivision in Antipolo where his associate Nilo Velasco (Nilo) lives. When Nilo told him that Atty. Salonga and L&J needed money to finish their projects, he agreed to lend them money. He personally met with Atty. Salonga and their meeting was cordial.

He narrated that when L&J was in the process of borrowing the ₱350,000.00 from him, it was Arlene San Juan (Arlene), the secretary/treasurer of L&J, who negotiated the terms and conditions thereof. She said that the money was to finance L&J's housing project. Rolando claimed that it was not he who demanded for the 6% monthly interest. It was L&J and Atty. Salonga, through Arlene, who insisted on paying the said interest as they asserted that the loan was only a short-term one.

### ***Ruling of the Metropolitan Trial Court***

The MeTC, in its Decision<sup>10</sup> of June 30, 2006, upheld the 6% monthly interest. In so ruling, it ratiocinated that since L&J agreed thereto and voluntarily paid the interest at such rate from 2000 to 2003, it is already estopped from impugning the same. Nonetheless, for reasons of equity, the said court reduced the interest rate to 12% *per annum* on the remaining principal obligation of ₱350,000.00. With regard to Rolando's prayer for moral damages, the MeTC denied the same as it found no malice or bad faith on the part of L&J in not paying the obligation. It likewise relieved Atty. Salonga of any liability as it found that he merely acted in his official capacity in obtaining the loan. The MeTC disposed of the case as follows:

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<sup>9</sup> Id. at 35-38.

<sup>10</sup> Id. at 39-43.

WHEREFORE, premises considered, judgment is hereby rendered in favor of the plaintiff, Arch. Rolando C. Dela Paz, and against the defendant, L & J Development Co., Inc., as follows:

a) ordering the defendant L & J Development Co., Inc. to pay plaintiff the amount of Three Hundred Fifty Thousand Pesos (₱350,000.00) representing the principal obligation, plus interest at the legal rate of 12% per annum to be computed from January 20, 2005, the date of the filing of the complaint, until the whole obligation is fully paid;

b) ordering the defendant L & J Development Co., Inc. to pay plaintiff the amount of Five Thousand Pesos (₱5,000.00) as and for attorney's fees; and

c) to pay the costs of this suit.

SO ORDERED.<sup>11</sup>

### ***Ruling of the Regional Trial Court***

L&J appealed to the RTC. It asserted in its appeal memorandum<sup>12</sup> that from December 2000 to March 2003, it paid monthly interest of ₱21,000.00 based on the agreed-upon interest rate of 6% monthly and from April 2003 to August 2003, interest payments in various amounts.<sup>13</sup> The total of interest payments made amounts to ₱576,000.00 – an amount which is even more than the principal obligation of ₱350,000.00

L&J insisted that the 6% monthly interest rate is unconscionable and immoral. Hence, the 12% *per annum* legal interest should have been applied from the time of the constitution of the obligation. At 12% *per annum* interest rate, it asserted that the amount of interest it ought to pay from December 2000 to March 2003 and from April 2003 to August 2003, only amounts to ₱105,000.00. If this amount is deducted from the total interest payments already made, which is ₱576,000.00, the amount of ₱471,000.00 appears to have been paid over and above what is due. Applying the rule on compensation, the principal loan of ₱350,000.00 should be set-off against the ₱471,000.00, resulting in the complete payment of the principal loan.

Unconvinced, the RTC, in its April 19, 2007 Decision,<sup>14</sup> affirmed the MeTC Decision, *viz*:

WHEREFORE, premises considered, the Decision appealed from is hereby AFFIRMED in all respects, with costs against the appellant.

SO ORDERED.<sup>15</sup>

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<sup>11</sup> Id. at 43.

<sup>12</sup> Id. at 44-53.

<sup>13</sup> See note 7.

<sup>14</sup> CA *rollo*, pp. 18-26.

<sup>15</sup> Id. at 26.

### ***Ruling of the Court of Appeals***

Undaunted, L&J went to the CA and echoed its arguments and proposed computation as proffered before the RTC.

In a Decision<sup>16</sup> dated February 27, 2008, the CA reversed and set aside the RTC Decision.

The CA stressed that the parties failed to stipulate in writing the imposition of interest on the loan. Hence, no interest shall be due thereon pursuant to Article 1956 of the Civil Code.<sup>17</sup> And even if payment of interest has been stipulated in writing, the 6% monthly interest is still outrightly illegal and unconscionable because it is contrary to morals, if not against the law. Being void, this cannot be ratified and may be set up by the debtor as defense. For these reasons, Rolando cannot collect any interest even if L&J offered to pay interest. Consequently, he has to return all the interest payments of ₱576,000.00 to L&J.

Considering further that Rolando and L&J thereby became creditor and debtor of each other, the CA applied the principle of legal compensation under Article 1279 of the Civil Code.<sup>18</sup> Accordingly, it set off the principal loan of ₱350,000.00 against the ₱576,000.00 total interest payments made, leaving an excess of ₱226,000.00, which the CA ordered Rolando to pay L&J plus interest. Thus:

WHEREFORE, the DECISION DATED APRIL 19, 2007 is REVERSED and SET ASIDE.

CONSEQUENT TO THE FOREGOING, respondent Rolando C. Dela Paz is ordered to pay to the petitioner the amount of ₱226,000.00, plus interest of 12% *per annum* from the finality of this decision.

Costs of suit to be paid by respondent Dela Paz.

SO ORDERED.<sup>19</sup>

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<sup>16</sup> Id. at 82-89.

<sup>17</sup> Article 1956. No interest shall be due unless it has been expressly stipulated in writing.

<sup>18</sup> Article 1279. In order that compensation may be proper, it is necessary:

(1) That each one of the obligors be bound principally, and that he be at the same time a principal creditor of the other;

(2) That both debts consist in a sum of money, or if the things due are consumable, they be of the same kind, and also of the same quality if the latter has been stated;

(3) That the two debts be due;

(4) That they be liquidated and demandable;

(5) That over neither of them there be any retention or controversy, commenced by third persons and communicated in due time to the debtor.

<sup>19</sup> CA *rollo*, p. 88.

In his Motion for Reconsideration,<sup>20</sup> Rolando argued that the circumstances exempt both the application of Article 1956 and of jurisprudence holding that a 6% monthly interest is unconscionable, unreasonable, and exorbitant. He alleged that Atty. Salonga, a lawyer, should have taken it upon himself to have the loan and the stipulated rate of interest documented but, by way of legal maneuver, Atty. Salonga, whom he fully trusted and relied upon, tricked him into believing that the undocumented and uncollateralized loan was within legal bounds. Had Atty. Salonga told him that the stipulated interest should be in writing, he would have readily assented.

Furthermore, Rolando insisted that the 6% monthly interest rate could not be unconscionable as in the first place, the interest was not imposed by the creditor but was in fact offered by the borrower, who also dictated all the terms of the loan. He stressed that in cases where interest rates were declared unconscionable, those meant to be protected by such declaration are helpless borrowers which is not the case here.

Still, the CA denied Rolando's motion in its Resolution<sup>21</sup> of June 6, 2008.

Hence, this Petition.

### ***The Parties' Arguments***

Rolando argues that the 6% monthly interest rate should not have been invalidated because Atty. Salonga took advantage of his legal knowledge to hoodwink him into believing that no document was necessary to reflect the interest rate. Moreover, the cases anent unconscionable interest rates that the CA relied upon involve lenders who imposed the excessive rates, which are totally different from the case at bench where it is the borrower who decided on the high interest rate. This case does not fall under a scenario that 'enslaves the borrower or that leads to the hemorrhaging of his assets' that the courts seek to prevent.

L&J, in controverting Rolando's arguments, contends that the interest rate is subject of negotiation and is agreed upon by both parties, not by the borrower alone. Furthermore, jurisprudence has nullified interest rates on loans of 3% per month and higher as these rates are contrary to morals and public interest. And while Rolando raises bad faith on Atty. Salonga's part, L&J avers that such issue is a question of fact, a matter that cannot be raised under Rule 45.

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<sup>20</sup> Id. at 93-99.

<sup>21</sup> Id. at 106.

### Issue

The Court's determination of whether to uphold the judgment of the CA that the principal loan is deemed paid is dependent on the validity of the monthly interest rate imposed. And in determining such validity, the Court must necessarily delve into matters regarding a) the form of the agreement of interest under the law and b) the alleged unconscionability of the interest rate.

### Our Ruling

The Petition is devoid of merit.

*The lack of a written stipulation to pay interest on the loaned amount disallows a creditor from charging monetary interest.*

Under Article 1956 of the Civil Code, no interest shall be due unless it has been expressly stipulated in writing. Jurisprudence on the matter also holds that for interest to be due and payable, two conditions must concur: a) express stipulation for the payment of interest; and b) the agreement to pay interest is reduced in writing.

Here, it is undisputed that the parties did not put down in writing their agreement. Thus, no interest is due. The collection of interest without any stipulation in writing is prohibited by law.<sup>22</sup>

But Rolando asserts that his situation deserves an exception to the application of Article 1956. He blames Atty. Salonga for the lack of a written document, claiming that said lawyer used his legal knowledge to dupe him. Rolando thus imputes bad faith on the part of L&J and Atty. Salonga. The Court, however, finds no deception on the part of L&J and Atty. Salonga. For one, despite the lack of a document stipulating the payment of interest, L&J nevertheless devotedly paid interests on the loan. It only stopped when it suffered from financial difficulties that prevented it from continuously paying the 6% monthly rate. For another, regardless of Atty. Salonga's profession, Rolando who is an architect and an educated man himself could have been a more reasonably prudent person under the circumstances. To top it all, he admitted that he had no prior communication with Atty. Salonga. Despite Atty. Salonga being a complete stranger, he immediately trusted him and lent his company ₱350,000.00, a significant amount. Moreover, as the creditor, he could have requested or required that all the terms and conditions of the loan agreement, which include the

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<sup>22</sup> *Siga-an v. Villanueva*, 596 Phil. 760, 769 (2009).

payment of interest, be put down in writing to ensure that he and L&J are on the same page. Rolando had a choice of not acceding and to insist that their contract be put in written form as this will favor and safeguard him as a lender. Unfortunately, he did not. It must be stressed that “[c]ourts cannot follow one every step of his life and extricate him from bad bargains, protect him from unwise investments, relieve him from one-sided contracts, or annul the effects of foolish acts. Courts cannot constitute themselves guardians of persons who are not legally incompetent.”<sup>23</sup>

It may be raised that L&J is estopped from questioning the interest rate considering that it has been paying Rolando interest at such rate for more than two and a half years. In fact, in its pleadings before the MeTC and the RTC, L&J merely prayed for the reduction of interest from 6% monthly to 1% monthly or 12% *per annum*. However, in *Ching v. Nicdao*,<sup>24</sup> the daily payments of the debtor to the lender were considered as payment of the principal amount of the loan because Article 1956 was not complied with. This was notwithstanding the debtor’s admission that the payments made were for the interests due. The Court categorically stated therein that “[e]stoppel cannot give validity to an act that is prohibited by law or one that is against public policy.”

*Even if the payment of interest has been reduced in writing, a 6% monthly interest rate on a loan is unconscionable, regardless of who between the parties proposed the rate.*

Indeed at present, usury has been legally non-existent in view of the suspension of the Usury Law<sup>25</sup> by Central Bank Circular No. 905 s. 1982.<sup>26</sup> Even so, not all interest rates levied upon loans are permitted by the courts as they have the power to equitably reduce unreasonable interest rates. In *Trade & Investment Development Corporation of the Philippines v. Roblett Industrial Construction Corporation*,<sup>27</sup> we said:

While the Court recognizes the right of the parties to enter into contracts and who are expected to comply with their terms and obligations, this rule is not absolute. Stipulated interest rates are illegal if they are unconscionable and the Court is allowed to temper interest rates when necessary. In exercising this vested power to

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<sup>23</sup> *Vales v. Villa*, 35 Phil. 769, 788 (1916).

<sup>24</sup> G.R. No. 141181, April 27, 2007, 522 SCRA 316, 361.

<sup>25</sup> ACT NO. 2655 as amended by Presidential Decree 116.

<sup>26</sup> Section 1 states: The 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.

<sup>27</sup> 523 Phil. 360 (2006).



determine what is iniquitous and unconscionable, the Court must consider the circumstances of each case. What may be iniquitous and unconscionable in one case, may be just in another. x x x<sup>28</sup>

Time and again, it has been ruled in a plethora of cases that stipulated interest rates of 3% per month and higher, are excessive, iniquitous, unconscionable and exorbitant. Such stipulations are void for being contrary to morals, if not against the law.<sup>29</sup> The Court, however, stresses that these rates shall be invalidated and shall be reduced only in cases where the terms of the loans are open-ended, and where the interest rates are applied for an indefinite period. Hence, the imposition of a specific sum of ₱40,000.00 a month for six months on a ₱1,000,000.00 loan is not considered unconscionable.<sup>30</sup> In the case at bench, there is no specified period as to the payment of the loan. Hence, levying 6% monthly or 72% interest *per annum* is “definitely outrageous and inordinate.”<sup>31</sup>

The situation that it was the debtor who insisted on the interest rate will not exempt Rolando from a ruling that the rate is void. As this Court cited in *Asian Cathay Finance and Leasing Corporation v. Gravador*,<sup>32</sup> “[t]he imposition of an unconscionable rate of interest on a money debt, even if knowingly and voluntarily assumed, is immoral and unjust. It is tantamount to a repugnant spoliation and an iniquitous deprivation of property, repulsive to the common sense of man.”<sup>33</sup> Indeed, “voluntariness does not make the stipulation on [an unconscionable] interest valid.”<sup>34</sup>

As exhaustibly discussed, no monetary interest is due Rolando pursuant to Article 1956. The CA thus correctly adjudged that the excess interest payments made by L&J should be applied to its principal loan. As computed by the CA, Rolando is bound to return the excess payment of ₱226,000.00 to L&J following the principle of *solutio indebiti*.<sup>35</sup>

However, pursuant to Central Bank Circular No. 799 s. 2013 which took effect on July 1, 2013,<sup>36</sup> the interest imposed by the CA must be accordingly modified. The ₱226,000.00 which Rolando is ordered to pay L&J shall earn an interest of 6% *per annum* from the finality of this Decision.

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<sup>28</sup> Id. at 366.

<sup>29</sup> *Macalinao v. Bank of the Philippine Islands*, G.R. No. 175490, September 17, 2009, 600 SCRA 67, 77, citing *Chua v. Timan*, G.R. No. 170452, August 13, 2008, 562 SCRA 146, 149-150.

<sup>30</sup> *Prisma Construction & Development Corporation v. Menchavez*, G.R. No. 160545, March 9, 2010, 614 SCRA 590, 599.

<sup>31</sup> *Spouses Solangon v. Salazar*, 412 Phil. 816, 823 (2001).

<sup>32</sup> G.R. No. 186550, July 5, 2010, 623 SCRA 517.

<sup>33</sup> Id. at 524.

<sup>34</sup> *Menchavez v. Bermudez*, G.R. No. 185368, October 11, 2012, 684 SCRA 168, 178.

<sup>35</sup> CIVIL CODE, Article 2154. If something is received when there is no right to demand it, and it was unduly delivered through mistake, the obligation to return it arises.

<sup>36</sup> Issued on June 21, 2013; It provides that 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.

**WHEREFORE**, the Decision dated February 27, 2008 of the Court of Appeals in CA-G.R. SP No. 100094 is hereby **AFFIRMED with modification** that petitioner Rolando C. De La Paz is ordered to pay respondent L&J Development Company the amount of ₱226,000.00, plus interest of 6% *per annum* from the finality of this Decision until fully paid.

**SO ORDERED.**

  
**MARIANO C. DEL CASTILLO**  
*Associate Justice*

WE CONCUR:

  
**ANTONIO T. CARPIO**  
*Associate Justice*  
*Chairperson*

  
**ARTURO D. BRION**  
*Associate Justice*

  
**MARTIN S. VILLARAMA, JR.**  
*Associate Justice*

  
**MARVIC MARIO VICTOR F. LEONEN**  
*Associate Justice*

**CERTIFICATION**

Pursuant to Section 13, Article VIII of the Constitution, 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.

**ANTONIO T. CARPIO**

*Associate Justice*  
*Acting Chief Justice*

