



Republic of the Philippines  
**Supreme Court**  
 Manila

**THIRD DIVISION**

**PHILIPPINE NATIONAL BANK,**    **G.R. No. 228904**  
 Petitioner,

Present:

-versus-

LEONEN, *J.*, Chairperson,  
 CARANDANG, \*  
 ZALAMEDA,  
 ROSARIO, and  
 DIMAAMPAO.\*\*, *JJ.*

**AIC                    CONSTRUCTION**  
**CORPORATION,       SPOUSES**  
**RODOLFO C. BACANI AND MA.**  
**AURORA C. BACANI,**  
 Respondents.

**Promulgated:**  
**October 13, 2021**

*Mis & DCBalt*

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**DECISION**

**LEONEN, J.:**

Courts may equitably reduce unconscionable interest charges, especially if it was determined through subjective and one-sided criteria, thus violating the principle of mutuality of contracts.

This Petition for Review on Certiorari<sup>1</sup> under Rule 45 of the Rules of Court assails the Court of Appeals' Decision<sup>2</sup> and Resolution,<sup>3</sup> which

\* On official leave (wellness).

\*\* Designated additional Member per Special Order No. 2839.

<sup>1</sup> *Rollo*, pp. 43-56.

<sup>2</sup> *Id.* at 9-36. The October 11, 2016 Decision in CA-G.R. CV No. 105531 was penned by Associate Justice Fernanda Lampas Peralta with the concurrence of Associate Justices Jane Aurora C. Lantion and Nina G. Antonio-Valenzuela of the Sixth Division, Court of Appeals, Manila.

<sup>3</sup> *Id.* at 38. The December 28, 2016 Resolution in CA-G.R. CV No. 105531 was penned by Associate Justice Fernanda Lampas Peralta with the concurrence of Associate Justices Jane Aurora C. Lantion and Nina G. Antonio-Valenzuela of the Sixth Division, Court of Appeals, Manila.

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modified the ruling of the Regional Trial Court<sup>4</sup> and imposed the legal rate of interest on the parties' credit agreement.

AIC Construction Corporation (AIC Construction) is a domestic construction company owned by the spouses Rodolfo and Ma. Aurora Bacani (the Bacani Spouses).<sup>5</sup>

In 1988, AIC Construction opened a current account with Philippine National Bank. About a year later, Philippine National Bank granted AIC Construction an omnibus credit line in the amount of ₱10 million.<sup>6</sup> The interest provision in the agreement states:

2.03 Interest on Availments. (a) the Borrowers agree to pay on each Availment from the date of each Availment, up to but not including the date of full payment thereof at the rate per annum which is determined by the Bank to be the Bank's prime rate plus applicable spread in effect as of the date of the relevant availment.<sup>7</sup>

As security, the Bacani Spouses executed a Real Estate Mortgage over parcels of land.<sup>8</sup> They also undertook to be jointly and severally liable with AIC Construction for the amounts released under the credit line.<sup>9</sup>

Through the years, the omnibus credit line increased little by little.<sup>10</sup> When the loan matured in September 1998, the loan amounted to ₱65 million, with ₱40 million as principal and ₱25 million as interest charges capitalized by the Philippine National Bank into principal.<sup>11</sup>

AIC Corporation negotiated for the restructuring of the loan by offering to pay it in full through a *dacion en pago* of their properties in Pampanga, Makati, Manila, and Mandaluyong.<sup>12</sup> These properties were appraised by Cuervo Appraisers, Inc. The parties, however, could not agree on the *dacion en pago*.<sup>13</sup>

On April 30, 2001, Philippine National Bank made its final demand to AIC Construction for the full payment of the loan in the amount of ₱140,837,511.29.<sup>14</sup>

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<sup>4</sup> Id. at 59–65. The December 5, 2013 Decision in Civil Case No. MC02-1748 was penned by Presiding Judge Esteban A. Tacla, Jr. of the Regional Trial Court Mandaluyong City, Branch 208.

<sup>5</sup> Id. at 10.

<sup>6</sup> Id.

<sup>7</sup> Id. at 52.

<sup>8</sup> Id. at 10.

<sup>9</sup> Id. at 11.

<sup>10</sup> Id.

<sup>11</sup> Id. at 11–12.

<sup>12</sup> Id. at 12.

<sup>13</sup> Id.

<sup>14</sup> Id. at 13.

Eventually, the mortgaged properties were foreclosed. On January 21, 2002, the ex-officio Sheriff of the Regional Trial Court, Mandaluyong City issued a notice for the sale of the mortgaged properties on February 26, 2002.<sup>15</sup>

On February 27, 2002, AIC Construction filed a complaint against Philippine National Bank, the ex-officio sheriff of Mandaluyong, and the sheriff of Makati for annulment of interest and penalty increases, accounting, exemption of family home and damages. It alleged that Philippine National Bank acted in bad faith by delaying the acceptance of their proposals for *dacion en pago*, and its capricious and arbitrary policies on the dacion valuation prevented them from paying their loan obligation.<sup>16</sup> They also pointed out that the mortgaged properties included their family home, a property exempt from execution, forced sale, or attachment.<sup>17</sup> Finally, they asserted that the imposed interest and penalty charges should be declared void for being excessive, exorbitant, and unconscionable.<sup>18</sup>

Philippine National Bank countered that AIC Construction had no right to compel them to accept the payment of their loan through *dacion en pago*, and that the mortgaged properties, including their family home, are not exempt from foreclosure sale.<sup>19</sup> It also asserted that the interest and penalty charges were valid because AIC Construction freely, intelligently, and voluntarily entered into the loan contract with full knowledge of the interest charges.<sup>20</sup> It claimed that AIC Construction is now estopped from questioning the interest as they have been availing of the credit line for more than a decade through several renewals.<sup>21</sup>

In its Decision,<sup>22</sup> the Regional Trial Court dismissed AIC Construction's complaint:

With regard to interest payment, the Plaintiffs did not show any evidence that the same is iniquitous and unconscionable. Jurisprudence dictates that he who alleges must prove. Other than their all encompassing allegation that the interest and penalty charged and collected should be declared null and void, the Plaintiffs did not specify the interest rate per annum that is charged on the said loan.

**WHEREFORE**, premises considered, judgment is hereby rendered dismissing the instant complaint.<sup>23</sup> (Emphasis in the original)

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<sup>15</sup> Id.

<sup>16</sup> Id. at 13–14.

<sup>17</sup> Id. at 14.

<sup>18</sup> Id.

<sup>19</sup> Id. at 15.

<sup>20</sup> Id. at 14.

<sup>21</sup> Id. at 14–15.

<sup>22</sup> Id. at 59–65.

<sup>23</sup> Id. at 65.

AIC Construction and the Bacani Spouses moved for reconsideration, which the trial court denied in its February 5, 2015 Order. Thus, they appealed to the Court of Appeals.<sup>24</sup>

The Court of Appeals modified the Regional Trial Court's ruling.<sup>25</sup> It affirmed that Philippine National Bank is not bound by the *dacion en pago* as there was no showing that it accepted the offer.<sup>26</sup> It also held that AIC Construction failed to prove that Philippine National Bank acted in bad faith especially since it was shown that it constantly communicated with AIC Construction regarding the negotiations on the loan payments.<sup>27</sup>

However, the Court of Appeals held that the applied interest rates were unreasonable, usurious, and unconscionable. It found that the interest rate was not specified in the real estate mortgage and the credit documents.<sup>28</sup> Furthermore, the provision on interest violated the principle of mutuality of contracts under Article 1308 of the Civil Code.<sup>29</sup> It noted that the Supreme Court has struck down similar Philippine National Bank provisions in other credit documents. It applied the legal rate of interest under *Nacar v. Gallery Frames*.<sup>30</sup> It also struck down the penalty charge of 24% per annum as the parties did not agree that penalties would be included in the secured amount.<sup>31</sup>

The dispositive portion of the Court of Appeals' Decision reads:

**WHEREFORE**, the Decision dated December 5, 2013 and Order dated February 5, 2015 of the trial court are affirmed insofar as it declared that there is no binding *dacion en pago* contract between the parties and that defendant-appellee Philippine National Bank was in good faith in dealing with plaintiffs-appellants.

The Decision dated December 5, 2013 and Order dated February 5, 2015 are modified as follows:

1. Defendant-appellee Philippine National Bank is ordered to furnish plaintiffs-appellants, within th[ir]ty (30) days from finality of this judgment, a written detailed accounting of the latter's outstanding loan obligation, with clear explanation of the computation thereof;
2. The computation of interest on the principal loan obligation of P65 million shall be at the rate of 12% *per annum* computed from effectivity of the pertinent loan agreement up to November 17, 2003,

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<sup>24</sup> Id. at 15.

<sup>25</sup> Id. at 9-36.

<sup>26</sup> Id. at 23-24.

<sup>27</sup> Id. at 24.

<sup>28</sup> Id. at 24-25.

<sup>29</sup> Id. at 27.

<sup>30</sup> 716 Phil. 267 (2013) [Per J. Peralta, En Banc]. Since the credit line was granted on July 4, 1989 and the loan was increased to P65 million by September 1997, the legal interest rate is 12% per annum and the interest rate on the conventional interest rate is 12% per annum from January 21, 2002 (date of judicial demand) to November 17, 2003 (date of issuance of the certificate of sale).

<sup>31</sup> *Rollo* p. 34.

the date of issuance of the certificate of sale by the Ex-Officio Sheriff of Mandaluyong City; interest rate on the conventional interest shall be at the rate of 12% *per annum* from January 21, 2002, the date of judicial demand, to November 17, 2003; and,

3. The penalty charge imposed on plaintiffs-appellants' loan obligation shall be excluded from the amount secured by the real estate mortgage.

**SO ORDERED.**<sup>32</sup> (Emphasis in the original)

The Court of Appeals denied reconsideration in its December 28, 2016 Resolution.<sup>33</sup>

Philippine National Bank thus filed this Petition for Review.<sup>34</sup> Petitioner claims that it did not violate the principle of mutuality of contracts in imposing the interest charges.<sup>35</sup> It asserts that Article 1308 of the Civil Code applies only to contracts that contain conditional obligations where the condition is potestative in nature as to the debtor. Petitioner claims that the interest rates were not a condition, rather, it is one of the terms of the loans and its determination was merely incidental to the computation of the interest due on the loans.<sup>36</sup>

Petitioner claims that assuming the determination of the interest rate was a condition, it did not depend solely on the will of petitioner. The interest was based on a determinable standard: the prevailing rate of interest in the market at the time the respondents availed of the loan.<sup>37</sup> Petitioner only added a spread on this applicable rate and imposed it on the loan. It claims that similarly worded interest rate provisions have been held valid and that interest rates need not be fixed and may depend on prevailing market conditions, provided there is a reference rate upon which to peg the variable interest rates.<sup>38</sup>

Petitioner insists that respondents AIC Construction and the Bacani Spouses freely agreed to the imposition of varying interest rates on their loan obligations.<sup>39</sup> Petitioner claims that respondents were fully informed of its precarious nature when they signed the credit and loan documents that specified the interest rates, penalties, and other charges. Petitioner further claims that respondents cannot argue now that these were inequitable or unlawful, especially since they are not unlettered persons.<sup>40</sup>

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<sup>32</sup> Id. at 35.

<sup>33</sup> Id. at 38.

<sup>34</sup> Id. at 43–56.

<sup>35</sup> Id. at 51.

<sup>36</sup> Id.

<sup>37</sup> Id. at 52.

<sup>38</sup> Id.

<sup>39</sup> Id. at 53.

<sup>40</sup> Id.

Petitioner maintains that to claim that the interest rates were exorbitant is a gross oversimplification.<sup>41</sup> The interest rates ranged from 13.532% to 24.4%. The rates were never fixed and varied monthly. The 24.4% interest was imposed only once, from March 19, 1998 to April 19, 1998. From April 19, 1998 to August 18, 1998, the interest rate decreased to 13.532%.<sup>42</sup>

In their Comment,<sup>43</sup> respondents insist that petitioner “unilaterally charged and imposed usurious, excessive, iniquitous, exorbitant, and unconscionable interests and penalty charges.”<sup>44</sup> They also claim that there is no mutuality between the parties in this case. Citing *Spouses Silos v. Philippine National Bank*,<sup>45</sup> respondents point out that petitioner’s unilateral imposition of interest in varying rates had been found invalid in several cases decided by this Court.<sup>46</sup> Respondents assert that this Court has also held that an iniquitous or unconscionable stipulated penalty may be equitably reduced.<sup>47</sup>

Furthermore, respondents maintain that lenders do not have carte blanche to impose interest rates to the point of hemorrhaging the assets of the borrower.<sup>48</sup> They emphasize that when the loan matured in September 1998, their outstanding obligation of ₱65 million was composed of: (i) their actual loan availment of ₱40 million, used to finance their business operations; and (ii) ₱25 million for interest charges. They state that the balance of the loan reached that amount because it had to continuously make availments just to pay the interest charges as they became due.<sup>49</sup> Respondents claim that at around May 2000, without any additional availments, the amount due became ₱92 million with 90% condonation of penalties. By April 30, 2001, their obligation increased to more than ₱140 million. When the amount was not paid, petitioner foreclosed the mortgaged properties. On January 31, 2002, the total amount due became ₱162,553,680.50. When petitioner foreclosed the mortgaged properties and was the sole bidder of several properties with a total appraised value of ₱89 million, it still wanted to collect deficiency judgment in the amount of ₱157 million.<sup>50</sup>

In its Reply,<sup>51</sup> petitioner reiterates its arguments that the interest rate does not depend on its sole will, but on a contingent event: its prevailing rate of interest at the time of availment. The rate thus was market-driven and

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<sup>41</sup> Id. at 54.

<sup>42</sup> Id.

<sup>43</sup> Id. at 70–80.

<sup>44</sup> Id. at 74–75.

<sup>45</sup> 738 Phil. 156 (2014) [Per J. Del Castillo, Second Division].

<sup>46</sup> *Rollo*, p. 75.

<sup>47</sup> Id. at 78.

<sup>48</sup> Id. at 77.

<sup>49</sup> Id. at 76.

<sup>50</sup> Id. at 77.

<sup>51</sup> Id. at 113–116.

determinable by simple arithmetic.<sup>52</sup> It argues that it is respondents who wish to breach the principle of mutuality of contracts by reneging on their contractual obligations.<sup>53</sup>

The sole issue for resolution is whether or not the Court of Appeals erred in finding the interest charges imposed by petitioner Philippine National Bank against respondents AIC Construction Corporation and the spouses Rodolfo and Ma. Aurora Bacani to be usurious and unconscionable and in applying the legal rate of interest to the parties' loan.

This Court denies the Petition. The Court of Appeals correctly applied the legal rate of interest to the loan.

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

The principle of mutuality of contracts is premised on the condition that there must be an essential equality between the parties so that obligations arising from contracts may have the force of law between them. If a condition in the contract depends solely on the will of one of the contracting parties, it is void.<sup>54</sup>

This principle applies to interest rates. Monetary interest is always agreed upon by the parties and they are free to stipulate on the rates that will apply to their loans.<sup>55</sup> However, if there is no true parity between the parties, courts may equitably reduce iniquitous or unconscionable interest charges. In *Vitug v. Abuda*.<sup>56</sup>

Parties are free to stipulate interest rates in their loan contracts in view of the suspension of the implementation of the Usury Law ceiling on interest effective January 1, 1983.

The freedom to stipulate interest rates is granted under the assumption that we have a perfectly competitive market for loans where a borrower has many options from whom to borrow. It assumes that parties are on equal footing during bargaining and that neither of the parties has a relatively greater bargaining power to command a higher or lower interest rate. It assumes that the parties are equally in control of the interest rate and equally have options to accept or deny the other party's proposals. In other words, the freedom is granted based on the premise that parties arrive at

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<sup>52</sup> Id. at 114.

<sup>53</sup> Id. at 114–115.

<sup>54</sup> *Philippine National Bank v. Court of Appeals*, 273 Phil. 789, 799 (1991) [Per J. Griño-Aquino, First Division].

<sup>55</sup> J. Leonen, Separate Concurring Opinion in *Lara's Gifts & Decors, Inc. v. Midtown Industrial Sales, Inc.*, G.R. No. 225433, August 28, 2019. <<https://elibrary.judiciary.gov.ph/thebookshelf/showdocs/1/65527>> [Per J. Carpio, En Banc].

<sup>56</sup> *Vitug v. Abuda*, 776 Phil. 540 (2016) [Per J. Leonen, Second Division].

interest rates that they are willing but are not compelled to take either by force of another person or by force of circumstances.

However, the premise is not always true. There are imperfections in the loan market. One party may have more bargaining power than the other. A borrower may be in need of funds more than a lender is in need of lending them. In that case, the lender has more commanding power to set the price of borrowing than the borrower has the freedom to negotiate for a lower interest rate.

Hence, there are instances when the state must step in to correct market imperfections resulting from unequal bargaining positions of the parties.

Article 1306 of the Civil Code limits the freedom to contract to promote public morals, safety, and welfare[.]

....

In stipulating interest rates, parties must ensure that the rates are neither iniquitous nor unconscionable. Iniquitous or unconscionable interest rates are illegal and, therefore, void for being against public morals. The lifting of the ceiling on interest rates may not be read as “grant[ing] lenders *carte blanche* [authority] to raise interest rates to levels which will either enslave their borrowers or lead to a hemorrhaging of their assets.”

Voluntariness of stipulations on interest rates is not sufficient to make the interest rates valid. In *Castro v. Tan*:

The 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. It has no support in law, in principles of justice, or in the human conscience nor is there any reason whatsoever which may justify such imposition as righteous and as one that may be sustained within the sphere of public or private morals.

Thus, even if the parties voluntarily agree to an interest rate, courts are given the discretionary power to equitably reduce it if it is later found to be iniquitous or unconscionable. Courts approximate what the prevailing market rate would have been under the circumstances had the parties had equal bargaining power.<sup>57</sup> (Citations omitted)

In this case, the interest provision on the parties' agreement states:

2.03 Interest on Availments. (a) the Borrowers agree to pay on each Availment from the date of each Availment, up to but not including the date of full payment thereof *at the rate per annum which is determined by the Bank to be the Bank's prime rate plus applicable spread in effect as of the date of the relevant availment.*<sup>58</sup> (Emphasis supplied)

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<sup>57</sup> Id. at 567–569.

<sup>58</sup> *Rollo*, p. 52.



This Court has already found this stipulation invalid in *Spouses Silos*.<sup>59</sup>

On the other hand, the August 1991 Amendment to Credit Agreement contains the following stipulation regarding interest:

1.03. Interest on Line Availments. (a) The Borrowers agree to pay interest on each Availment from date of each Availment up to but not including the date of full payment thereof at the rate *per annum* which is determined by the Bank to be prime rate plus applicable spread in effect as of the date of each Availment.

and under this Amendment to Credit Agreement, petitioners again executed and signed the following promissory notes in blank, for the respondent to later on enter the corresponding interest rates, which it did, as follows:

....

*These stipulations must be once more invalidated, as was done in previous cases. The common denominator in these cases is the lack of agreement of the parties to the imposed interest rates. For this case, this lack of consent by the petitioners has been made obvious by the fact that they signed the promissory notes in blank for the respondent to fill. We find credible the testimony of Lydia in this respect. Respondent failed to discredit her; in fact, its witness PNB Kalibo Branch Manager Aspa admitted that interest rates were fixed solely by its Treasury Department in Manila, which were then simply communicated to all PNB branches for implementation. If this were the case, then this would explain why petitioners had to sign the promissory notes in blank, since the impossible interest rates have yet to be determined and fixed by respondent's Treasury Department in Manila.*

Moreover, in Aspa's enumeration of the factors that determine the interest rates PNB fixes — such as cost of money, foreign currency values, bank administrative costs, profitability, and considerations which affect the banking industry — it can be seen that considerations which affect PNB's borrowers are ignored. *A borrower's current financial state, his feedback or opinions, the nature and purpose of his borrowings, the effect of foreign currency values or fluctuations on his business or borrowing, etc. — these are not factors which influence the fixing of interest rates to be imposed on him. Clearly, respondent's method of fixing interest rates based on one-sided, indeterminate, and subjective criteria such as profitability, cost of money, bank costs, etc. is arbitrary for there is no fixed standard or margin above or below these considerations.*

....

To repeat what has been said in the above-cited cases, any modification in the contract, such as the interest rates, must be made with the consent of the contracting parties. The minds of all the parties must meet as to the proposed modification, especially when it affects an important aspect of the agreement. In the case of loan agreements, the rate of interest is a principal condition, if not the most important component.

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<sup>59</sup> 738 Phil. 156 (2014) [Per J. Del Castillo, Second Division].

Thus, any modification thereof must be mutually agreed upon; otherwise, it has no binding effect.

What is even more glaring in the present case is that, *the stipulations in question no longer provide that the parties shall agree upon the interest rate to be fixed; instead, they are worded in such a way that the borrower shall agree to whatever interest rate respondent fixes.*

....

Accordingly, petitioners are correct in arguing that estoppel should not apply to them, for “[e]stoppel cannot be predicated on an illegal act. As between the parties to a contract, validity cannot be given to it by estoppel if it is prohibited by law or is against public policy.” It appears that by its acts, respondent violated the Truth in Lending Act, or Republic Act No. 3765, which was enacted “to protect [...] citizens from a lack of awareness of the true cost of credit to the user by using a full disclosure of such cost with a view of preventing the uninformed use of credit to the detriment of the national economy.” The law “gives a detailed enumeration of the specific information required to be disclosed, among which are the interest and other charges incident to the extension of credit.”<sup>60</sup> (Emphases supplied, citations omitted)

The facts of this case are similar to the facts in *Spouses Silos*. The interest rates are yet to be determined through a subjective and one-sided criterion. These rates are no longer subject to the approval of respondents. The parties did not agree on the interest rate. Rather, the interest rate was imposed by petitioner, and respondents were left with no choice but to agree to it. This arrangement violates Republic Act No. 3765 or the Truth in Lending Act, which requires creditors to fully disclose to the debtor all amounts incidental to the extension of the credit, including interests, discounts or fees, to protect debtors from a lack of awareness of the true cost of credit.<sup>61</sup>

<sup>60</sup> Id. at 190–195.

<sup>61</sup> Republic Act No. 3765 (1963), sec. 2, 4, and 6(a):

SECTION 2. *Declaration of Policy.* — It is hereby declared to be the policy of the State to protect its citizens from a lack of awareness of the true cost of credit to the user by assuring a full disclosure of such cost with a view of preventing the uninformed use of credit to the detriment of the national economy.

SECTION 4. Any creditor shall furnish to each person to whom credit is extended, prior to the consummation of the transaction, a clear statement in writing setting forth, to the extent applicable and in accordance with rules and regulations prescribed by the Board, the following information:

- (1) the cash price or delivered price of the property or service to be acquired;
- (2) the amounts, if any, to be credited as down payment and/or trade-in;
- (3) the difference between the amounts set forth under clauses (1) and (2);
- (4) the charges, individually itemized, which are paid or to be paid by such person in connection with the transaction but which are not incident to the extension of credit;
- (5) the total amount to be financed;
- (6) the finance charge expressed in terms of pesos and centavos; and
- (7) the percentage that the finance bears to the total amount to be financed expressed as a simple annual rate on the outstanding unpaid balance of the obligation.

SECTION 6. (a) Any creditor who in connection with any credit transaction fails to disclose to any person any information in violation of this Act or any regulation issued thereunder shall be liable to such person in the amount of P100 or in an amount equal to twice the finance charges required by such creditor in connection with such transaction, whichever is the greater, except that such liability shall not exceed P2,000 on any credit transaction. Action to recover such penalty may be brought by such person within one year from the date of the occurrence of the violation, in any court of competent jurisdiction. In any action under this subsection in which any person is entitled to a recovery, the creditor shall be liable for reasonable attorney’s fees and court costs as determined by the court.

It also cannot be argued that respondents are bound by the interest rates. *Spouses Silos* also discussed the inequality between the parties in loan and credit arrangements:

The fact that petitioners later received several statements of account detailing its outstanding obligations does not cure respondent's breach. To repeat, the belated discovery of the true cost of credit does not reverse the ill effects of an already consummated business decision. Neither may the statements be considered proposals sent to secure the petitioners' conformity; they were sent after the imposition and application of the interest rate, and not before. And even if it were to be presumed that these are proposals or offers, there was no acceptance by petitioners. "No one receiving a proposal to modify a loan contract, especially regarding interest, is obliged to answer the proposal."

Loan and credit arrangements may be made enticing by, or "sweetened" with, offers of low initial interest rates, but actually accompanied by provisions written in fine print that allow lenders to later on increase or decrease interest rates unilaterally, without the consent of the borrower, and depending on complex and subjective factors. Because they have been lured into these contracts by initially low interest rates, borrowers get caught and stuck in the web of subsequent steep rates and penalties, surcharges and the like. Being ordinary individuals or entities, they naturally dread legal complications and cannot afford court litigation; they succumb to whatever charges the lenders impose. At the very least, borrowers should be charged *rightly*; but then again this is not possible in a one-sided credit system where the temptation to abuse is strong and the willingness to rectify is made weak by the eternal desire for profit.

....

Besides, that petitioners are given the right to question the interest rates imposed is, under the circumstances, irrelevant; we have a situation where the petitioners do not stand on equal footing with the respondent. It is doubtful that any borrower who finds himself in petitioners' position would dare question respondent's power to arbitrarily modify interest rates at any time. In the second place, on what basis could any borrower question such power, when the criteria or standards — which are really one-sided, arbitrary and subjective — for the exercise of such power are precisely lost on him?<sup>62</sup> (Emphasis in the original, citations omitted)

In this case, this Court notes that petitioner did not contest respondents' allegations as to the breakdown of the amounts due to it: (i) that respondents' obligation of ₱65 million when the loan matured was composed of their actual loan availment of ₱40 million and ₱25 million for interest charges; (ii) that at around May 2000, without any additional availments, the amount due became ₱92 million; (iii) that by April 30, 2001, respondents' obligation increased to more than ₱140 million; (iv) that when the amount due became ₱162,553,680.50 and after petitioner foreclosed the mortgaged properties, it

<sup>62</sup> 738 Phil. 156, 197–199 (2014) [Per J. Del Castillo, Second Division].

still wanted to collect deficiency judgment in the amount of ₱157 million.<sup>63</sup> This Court also notes that respondents have already argued against the loss of their family home.

In a concurring and dissenting opinion in *Lara's Gifts & Decors, Inc. v. Midtown Industrial Sales, Inc.*<sup>64</sup> it was discussed how interest should be consistent with the demands of social justice:

As a matter of principle, money itself should not beget money. Money is only generally a store of value. It “has value because people are willing to accept it in exchange for goods and services and in payment for debts.”

Allowing money to produce more money — for instance, lending money at excessive interest rates as a way of increasing money — lays the foundation for a growing wealth disparity, since loans are usually extended by those who are richer (with capital) to those who are poorer (without capital). This does not serve the demands of social justice; that is, “the humanization of laws and the equalization of social and economic forces by the State so that justice in its rational and objectively secular conception may at least be approximated.”

Money should be put to productive use so that the owner, the society, and the less privileged may all share in the benefits to be derived from it. Passive income “adds no new good or service into the market that would be of use to real persons. Instead, it has the tendency to alter the price of real goods and services to the detriment of those who manufacture, labor, and consume products.” The practice of making money out of money skews the economy in favor of speculation and provides a disincentive for real economies.<sup>65</sup> (Citations omitted)

Interest and penalties cannot be charged to unjustly enrich a person at the expense of another. Thus, the Court of Appeals correctly applied the legal rate of interest in the credit agreement.

**WHEREFORE**, the Petition is **DENIED**. The October 11, 2016 Decision and December 28, 2016 Resolution of the Court of Appeals in CA-G.R. CV No. 105531 is **AFFIRMED**.

Petitioner Philippine National Bank is ordered to furnish respondents AIC Construction Corporation and the spouses Rodolfo and Aurora Bacani, within 30 days from finality of this judgment, a written detailed accounting of their outstanding loan obligation, with clear explanation of the computation thereof.

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<sup>63</sup> *Rollo*, pp. 76-77.


<sup>64</sup> G.R. No. 225433, August 28, 2019, <<https://elibrary.judiciary.gov.ph/thebookshelf/showdocs/1/65527>> [Per J. Carpio, En Banc].

<sup>65</sup> J. Leonen, Separate Concurring Opinion in *Lara's Gifts & Decors, Inc. v. Midtown Industrial Sales, Inc.*, G.R. No. 225433, August 28, 2019, <<https://elibrary.judiciary.gov.ph/thebookshelf/showdocs/1/65527>> [Per J. Carpio, En Banc].

The computation of interest on the principal loan obligation of ₱65 million shall be at the rate of 12% per annum, computed from effectivity of the pertinent loan agreement up to November 17, 2003, the date of issuance of the certificate of sale by the Ex-Officio Sheriff of Mandaluyong City. Interest rate on the conventional interest shall be at the rate of 12% per annum from January 21, 2002, the date of judicial demand, to November 17, 2003.

The penalty charge imposed on respondents' loan obligation shall be excluded from the amount secured by the real estate mortgage.

**SO ORDERED.**

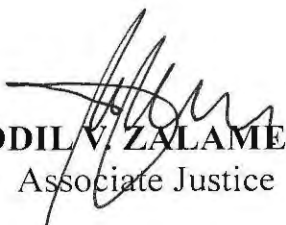


**MARVIC M.V.F. LEONEN**  
Associate Justice

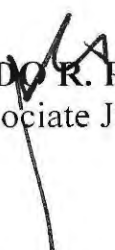
WE CONCUR:




**ROSMARI D. CARANDANG**  
Associate Justice



**RODIL V. ZALAMEDA**  
Associate Justice




**RICARDO R. ROSARIO**  
Associate Justice



**JAPAR B. DIMAAMPAO**  
Associate Justice

**ATTESTATION**

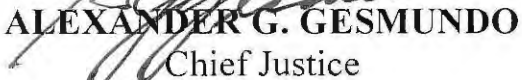
I attest that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.



**MARVIC M.V.F. LEONEN**  
Associate Justice  
Chairperson

**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.



**ALEXANDER G. GESMUNDO**  
Chief Justice