

SECOND DIVISION

[G.R. No. 193178, May 30, 2011]

**PHILIPPINE SAVINGS BANK, PETITIONER, VS. SPOUSES
ALFREDO M. CASTILLO AND ELIZABETH C. CASTILLO, AND
SPOUSES ROMEO B. CAPATI AND AQUILINA M. LOBO,
RESPONDENTS.**

DECISION

NACHURA, J.:

This is a petition for review on *certiorari*^[1] under Rule 45 of the Rules of Court, seeking to partially reconsider and modify the Decision^[2] dated August 27, 2009 and the Resolution^[3] dated August 4, 2010 of the Court of Appeals (CA) in CA-G.R. CV No. 86445.

Respondent spouses Alfredo M. Castillo and Elizabeth Capati-Castillo were the registered owners of a lot located in Tondo, Manila, covered by Transfer Certificate of Title (TCT) No. 233242. Respondent spouses Romeo B. Capati and Aquilina M. Lobo were the registered owners of another lot, covered by TCT No. 227858, also located in Tondo, Manila.

On May 7, 1997, respondents obtained a loan, with real estate mortgage over the said properties, from petitioner Philippine Savings Bank, as evidenced by a Promissory Note with a face value of P2,500,000.00. The Promissory Note, in part, reads:

FOR VALUE RECEIVED, I/We, solidarily, jointly and severally, promise to pay to the order of PHILIPPINE SAVINGS BANK, at its head office or at the above stated Branch the sum of TWO MILLION FIVE HUNDRED THOUSAND PESOS ONLY (P2,500,000.00), Philippine currency, with interest at the rate of seventeen per centum (17%) per annum, from date until paid, as follows:

P43,449.41 (principal and interest) monthly for fifty nine (59) months starting June 07, 1997 and every 7th day of the month thereafter with balloon payment on May 07, 2002.

Also, the rate of interest herein provided shall be subject to review and/or adjustment every ninety (90) days.

All amortizations which are not paid on due date shall bear a penalty equivalent to three percent (3%) of the amount due for every month or fraction of a month's delay.

The rate of interest and/or bank charges herein stipulated, during the terms of this promissory note, its extensions, renewals or other modifications, may be increased, decreased or otherwise changed from time to time within the rate of interest and charges allowed under present or future law(s) and/or government regulation(s) as the PHILIPPINE SAVINGS BANK may prescribe for its debtors.

Upon default of payment of any installment and/or interest when due, all other installments and interest remaining unpaid shall immediately become due and payable. Also, said interest not paid when due shall be added to, and become part of the principal and shall likewise bear interest at the same rate herein provided.^[4]

From the release of the loan in May 1997 until December 1999, petitioner had increased and decreased the rate of interest, the highest of which was 29% and the lowest was 15.5% per annum, per the Promissory Note.

Respondents were notified in writing of these changes in the interest rate. They neither gave their confirmation thereto nor did they formally question the changes. However, respondent Alfredo Castillo sent several letters to petitioner requesting for the reduction of the interest rates.^[5] Petitioner denied these requests.

Respondents regularly paid their amortizations until December 1999, when they defaulted due to financial constraints. Per petitioner's table of application of payment, respondents' outstanding balance was P2,231,798.11.^[6] Petitioner claimed that as of February 11, 2000, respondents had a total outstanding obligation of P2,525,910.29.^[7] Petitioner sent them demand letters. Respondents failed to pay.

Thus, petitioner initiated an extrajudicial foreclosure sale of the mortgaged properties. The auction sale was conducted on June 16, 2000, with the properties sold for P2,778,611.27 and awarded to petitioner as the only bidder. Being the mortgagee, petitioner no longer paid the said amount but rather credited it to the loan amortizations and arrears, past due interest, penalty charges, attorney's fees, all legal fees and expenses incidental to the foreclosure and sale, and partial payment of the mortgaged debt. On even date, a certificate of sale was issued and submitted to the Clerk of Court and to the Ex-Officio Sheriff of Manila.

On July 3, 2000, the certificate of sale, *sans* the approval of the Executive Judge of the Regional Trial Court (RTC), was registered with the Registry of Deeds of Manila.

Respondents failed to redeem the property within the one-year redemption period. However, on July 18, 2001, Alfredo Castillo sent a letter to petitioner requesting for an extension of 60 days before consolidation of its title so that they could redeem the properties, offering P3,000,000.00 as redemption price. Petitioner conceded to Alfredo Castillo's request, but respondents still failed to redeem the properties.

On October 1, 2001, respondents filed a case for Reformation of Instruments, Declaration of Nullity of Notarial Foreclosure Proceedings and Certificate of Sale, Cancellation of Annotations on TCT Nos. 233242 and 227858, and Damages, with a

plea for the issuance of a temporary restraining order (TRO) and/or writ of preliminary prohibitory injunction, with the RTC, Branch 14, Manila.

On October 5, 2001, the RTC issued a TRO. Eventually, on October 25, 2001, it issued a writ of preliminary injunction.

After trial, the RTC rendered its decision dated July 30, 2005, the dispositive portion of which reads:

WHEREFORE, judgment is hereby rendered in favor of the plaintiffs, and against the defendants in the following manner:

1. Declaring the questioned increases of interest as unreasonable, excessive and arbitrary and ordering the defendant Philippine Savings Bank to refund to the plaintiffs, the amount of interest collected in excess of seventeen percent (17%) per annum;
2. Declaring the Extrajudicial Foreclosure conducted by the defendants on June 16, 2000 and the subsequent proceedings taken thereafter to be void *ab initio*. In this connection, defendant Register of Deeds is hereby ordered to cause the cancellation of the corresponding annotations at the back of Transfer Certificates of Title No. 227858 and 233242 in the name of Spouses Alfredo and Elizabeth Castillo and Spouses Romeo Capati and Aquilina M. Lobo;
3. Defendant Philippine Savings Bank is adjudged to pay plaintiffs the amount of Php50,000.00 as moral damages; Php50,000.00 as exemplary damages; and attorney's fees in the amount of Php30,000.00 and Php3,000.00 per appearance.
4. Defendants' counterclaims are hereby **DISMISSED** for lack of merit.

With costs against the defendant Philippine Savings Bank, Inc.

SO ORDERED.^[8]

Petitioner filed a motion for reconsideration. The RTC partially granted the motion in its November 30, 2005 Order, modifying the interest rate from 17% to 24% per annum.^[9]

Petitioner appealed to the CA. The CA modified the decision of the RTC, thus--

WHEREFORE, in view of the foregoing, the Decision of the Regional Trial Court is hereby **AFFIRMED WITH MODIFICATIONS**. The *fallo* shall now read:

WHEREFORE, judgment is hereby rendered in favor of the plaintiffs and

against the defendants in the following manner:

1. Declaring the questioned increases of interest as unreasonable, excessive and arbitrary and ordering the defendant Philippine Savings Bank to refund to the plaintiffs, the amount of interest collected in excess of seventeen percent (17%) per annum;
2. Declaring the Extrajudicial Foreclosure conducted by the defendants on June 16, 2000 and the subsequent proceedings taken thereafter to be valid[;]
3. Defendant Philippine Savings Bank is adjudged to pay plaintiffs the amount of Php 25,000.00 as moral damages; Php 50,000.00 as exemplary damages; and attorney's fees in the amount of Php 30,000.00 and Php 3,000.00 per appearance;
4. Defendants' counterclaims are hereby **DISMISSED** for lack of merit.

With costs against the defendant Philippine Savings Bank, Inc.

SO ORDERED.^[10]

Hence, this petition anchored on the contention that the CA erred in: (1) declaring that the modifications in the interest rates are unreasonable; and (2) sustaining the award of damages and attorney's fees.

The petition should be partially granted.

The unilateral determination and imposition of the increased rates is violative of the principle of mutuality of contracts under Article 1308 of the Civil Code, which provides that "[t]he contract must bind both contracting parties; its validity or compliance cannot be left to the will of one of them."^[11] A perusal of the Promissory Note will readily show that the increase or decrease of interest rates hinges solely on the discretion of petitioner. It does not require the conformity of the maker before a new interest rate could be enforced. Any contract which appears to be heavily weighed in favor of one of the parties so as to lead to an unconscionable result, thus partaking of the nature of a contract of adhesion, is void. Any stipulation regarding the validity or compliance of the contract left solely to the will of one of the parties is likewise invalid.

Petitioner contends that respondents acquiesced to the imposition of the modified interest rates; thus, there was no violation of the principle of mutuality of contracts. To buttress its position, petitioner points out that the exhibits presented by respondents during trial contained a uniform provision, which states:

The interest rate adjustment is in accordance with the Conformity Letter you have signed amending your account's interest rate review period