

FIRST DIVISION

[G.R. No. 149004, April 14, 2004]

**RESTITUTA M. IMPERIAL, PETITIONER, VS. ALEX A. JAUCIAN,
RESPONDENT.**

D E C I S I O N

PANGANIBAN, J.:

Iniquitous and unconscionable stipulations on interest rates, penalties and attorney's fees are contrary to morals. Consequently, courts are granted authority to reduce them equitably. If reasonably exercised, such authority shall not be disturbed by appellate courts.

The Case

Before us is a Petition for Review^[1] under Rule 45 of the Rules of Court, assailing the July 19, 2000 Decision^[2] and the June 14, 2001 Resolution^[3] of the Court of Appeals (CA) in CA-GR CV No. 43635. The decretal portion of the Decision is as follows:

"WHEREFORE, premises considered, the appealed Decision of the Regional Trial Court, 5th Judicial Region, Branch 21, Naga City, dated August 31, 1993, in Civil Case No. 89-1911 for Sum of Money, is hereby **AFFIRMED** *in toto*."^[4]

The assailed Resolution denied petitioner's Motion for Reconsideration.

The dispositive portion of the August 31, 1993 Decision, promulgated by the Regional Trial Court (RTC) of Naga City (Branch 21) and affirmed by the CA, reads as follows:

"Wherefore, Judgment is hereby rendered declaring Section I, Central Bank Circular No. 905, series of 1982 to be of no force and legal effect, it having been promulgated by the Monetary Board of the Central Bank of the Philippines with grave abuse of discretion amounting to excess of jurisdiction; declaring that the rate of interest, penalty, and charges for attorney's fees agreed upon between the parties are unconscionable, iniquitous, and in violation of Act No. 2655, otherwise known as the Usury Law, as amended; and ordering Defendant to pay Plaintiff the amount of FOUR HUNDRED SEVENTY-EIGHT THOUSAND, ONE HUNDRED NINETY-FOUR and 54/100 (P478,194.54) PESOS, Philippine currency, with regular and compensatory interests thereon at the rate of twenty-eight (28%) per centum per annum, computed from August 31, 1993 until full payment of the said amount, and in addition, an amount

equivalent to ten (10%) per centum of the total amount due and payable, for attorney's fees, without pronouncement as to costs."^[5]

The Facts

The CA summarized the facts of the case in this wise:

"The present controversy arose from a case for collection of money, filed by Alex A. Jaucian against Restituta Imperial, on October 26, 1989. The complaint alleges, inter alia, that defendant obtained from plaintiff six (6) separate loans for which the former executed in favor of the latter six (6) separate promissory notes and issued several checks as guarantee for payment. When the said loans became overdue and unpaid, especially when the defendant's checks were dishonored, plaintiff made repeated oral and written demands for payment.

"Specifically, the six (6) separate loans obtained by defendant from plaintiff on various dates are as follows:

(a) November 13, 1987	P 50,000.00
(b) December 28, 1987	40,000.00
(c) January 6, 1988	30,000.00
(d) January 11, 1988	50,000.00
(e) January 12, 1988	50,000.00
(f) January 13, 1988	<u>100,000.00</u>
Total	P320,000.00

"The loans were covered by six (6) separate promissory notes executed by defendant. The face value of each promissory notes is bigger [than] the amount released to defendant because said face value already include[d] the interest from date of note to date of maturity. Said promissory notes, which indicate the interest of 16% per month, date of issue, due date, the corresponding guarantee checks issued by defendant, penalties and attorney's fees, are the following:

1. Exhibit 'D' – for loan of P40,000.00 on December 28, 1987, with face value of P65,000.00;
2. Exhibit 'E' – for loan of P50,000.00 on January 11, 1988, with face value of P82,000.00;
3. Exhibit 'F' – for loan of P50,000.00 on January 12, 1988, with face value of P82,000.00;
4. Exhibit 'G' – for loan of P100,000.00 on January 13, 1988, with face value of P164,000.00;
5. Exhibit 'H' – This particular promissory note covers the second renewal of the original loan of P50,000.00 on November 13, 1987, which was renewed for the first time on March 16, 1988 after certain payments, and which was renewed finally for the second time on January 4, 1988 also after certain payments, with a face

value of P56,240.00;

6. Exhibit 'I' – This particular promissory note covers the second renewal of the original loan of P30,000.00 on January 6, 1988, which was renewed for the first time on June 4, 1988 after certain payments, and which was finally renewed for the second time on August 6, 1988, also after certain payments, with [a] face value of P12,760.00;

"The particulars about the postdated checks, i.e., number, amount, date, etc., are indicated in each of the promissory notes. Thus, for Exhibit 'D', four (4) PB checks were issued; for Exhibit 'E' four (4) checks; for Exhibit 'F' four (4) checks; for Exhibit 'G' four (4) checks; for Exhibit 'H' one (1) check; for Exhibit 'I' one (1) check;

"The arrangement between plaintiff and defendant regarding these guarantee checks was that each time a check matures the defendant would exchange it with cash.

"Although, admittedly, defendant made several payments, the same were not enough and she always defaulted whenever her loans mature[d]. As of August 16, 1991, the total unpaid amount, including accrued interest, penalties and attorney's fees, [was] P2,807,784.20.

"On the other hand, defendant claims that she was extended loans by the plaintiff on several occasions, i.e., from November 13, 1987 to January 13, 1988, in the total sum of P320,000.00 at the rate of sixteen percent (16%) per month. The notes mature[d] every four (4) months with unearned interest compounding every four (4) months if the loan [was] not fully paid. The loan releases [were] as follows:

(a) November 13, 1987	P 50,000.00
(b) December 28, 1987	40,000.00
(c) January 6, 1988	30,000.00
(d) January 11, 1988	50,000.00
(e) January 12, 1988	50,000.00
(f) January 13, 1988	<u>100,000.00</u>
Total	P320,000.00

"The loan on November 13, 1987 and January 6, 1988 ha[d] been fully paid including the usurious interests of 16% per month, this is the reason why these were not included in the complaint.

"Defendant alleges that all the above amounts were released respectively by checks drawn by the plaintiff, and the latter must produce these checks as these were returned to him being the drawer if only to serve the truth. The above amount are the real amount released to the defendant but the plaintiff by masterful machinations made it appear that the total amount released was P462,600.00. Because in his computation he made it appear that the true amounts released was not the original amount, since it include[d] the unconscionable interest for four months.

"Further, defendant claims that as of January 25, 1989, the total payments made by defendants [were] as follows:

a.	Paid releases on November 13, 1987 of P50,000.00 and January 6, 1988 of P30,000.00 these two items were not included in the complaint affirming the fact that these were paid	P 80,000.00
b.	Exhibit '26' Receipt	231,000.00
c.	Exhibit '8-25' Receipt	65,300.00
d.	Exhibit '27' Receipt	65,000.00
	Total	P441,780.00
	Less:	320,000.00
	Excess Payment	P121,780.00

"Defendant contends that from all perspectives the above excess payment of P121,780.00 is more than the interest that could be legally charged, and in fact as of January 25, 1989, the total releases have been fully paid.

"On 31 August 1993, the trial court rendered the assailed decision."^[6]

Ruling of the Court of Appeals

On appeal, the CA held that without judicial inquiry, it was improper for the RTC to rule on the constitutionality of Section 1, Central Bank Circular No. 905, Series of 1982. Nonetheless, the appellate court affirmed the judgment of the trial court, holding that the latter's clear and detailed computation of petitioner's outstanding obligation to respondent was convincing and satisfactory.

Hence, this Petition.^[7]

The Issues

Petitioner raises the following arguments for our consideration:

- "1. That the petitioner has fully paid her obligations even before filing of this case.
- "2. That the charging of interest of twenty-eight (28%) per centum per annum without any writing is illegal.
- "3. That charging of excessive attorney's fees is hemorrhagic.
- "4. Charging of excessive penalties per month is in the guise of hidden interest.
- "5. The non-inclusion of the husband of the petitioner at the time the case was filed should have dismissed this case."^[8]