

SECOND DIVISION

[G.R. No. 158622, January 27, 2016]

**SPOUSES ROBERT ALAN L. AND NANCY LEE LIMSO,
PETITIONERS, VS. PHILIPPINE NATIONAL BANK AND THE
REGISTER OF DEEDS OF DAVAO CITY, RESPONDENTS.**

[G.R. NO. 169441]

**DAVAO SUNRISE INVESTMENT AND DEVELOPMENT
CORPORATION AND SPOUSES ROBERT ALAN AND NANCY LIMSO,
PETITIONERS, VS. HON. JESUS V. QUITAIN, IN HIS CAPACITY AS
PRESIDING JUDGE OF REGIONAL TRIAL COURT, DAVAO CITY,
BRANCH 15 AND PHILIPPINE NATIONAL BANK, RESPONDENTS.**

[G.R. NO. 172958]

**DAVAO SUNRISE INVESTMENT AND DEVELOPMENT
CORPORATION REPRESENTED BY ITS PRESIDENT ROBERT ALAN
L. LIMSO, AND SPOUSES ROBERT ALAN AND NANCY LEE LIMSO,
PETITIONERS, VS. HON. JESUS V. QUITAIN, IN HIS CAPACITY AS
PRESIDING JUDGE OF REGIONAL TRIAL COURT, DAVAO CITY,
BRANCH 15 AND PHILIPPINE NATIONAL BANK, RESPONDENTS.**

[G.R. NO. 173194]

**PHILIPPINE NATIONAL BANK, PETITIONER, VS. DAVAO
SUNRISE INVESTMENT AND DEVELOPMENT CORPORATION AND
SPOUSES ROBERT ALAN LIMSO AND NANCY LEE LIMSO,
RESPONDENTS.**

[G.R. NO. 196958]

**PHILIPPINE NATIONAL BANK, PETITIONER, VS. DAVAO
SUNRISE INVESTMENT AND DEVELOPMENT CORPORATION AND
SPOUSES ROBERT ALAN L. LIMSO AND NANCY LEE LIMSO,
RESPONDENTS.**

[G.R. NO. 197120]

**DAVAO SUNRISE INVESTMENT AND DEVELOPMENT
CORPORATION AND SPOUSES ROBERT ALAN AND NANCY LEE
LIMSO, PETITIONERS, VS. PHILIPPINE NATIONAL BANK,
RESPONDENT.**

[G.R. NO. 205463]

IN THE MATTER OF THE PETITION EX-PARTE FOR THE ISSUANCE OF THE WRIT OF POSSESSION UNDER LRC RECORD NO. 12973, 18031 AND LRC RECORD NO. 317, PHILIPPINE NATIONAL BANK,

D E C I S I O N

LEONEN, J.:

There is no mutuality of contract when the interest rate in a loan agreement is set at the sole discretion of one party. Nor is there any mutuality when there is no reasonable means by which the other party can determine the applicable interest rate. These types of interest rates stipulated in the loan agreement are null and void. However, the nullity of the stipulated interest rate does not automatically nullify the provision requiring payment of interest. Certainly, it does not nullify the obligation to pay the principal loan obligation.

These consolidated cases arose from three related actions filed before the trial courts of Davao City.

In 1993, Spouses Robert Alan L. Limso and Nancy Lee Limso (Spouses Limso)^[1] and Davao Sunrise Investment and Development Corporation (Davao Sunrise) took out a loan secured by real estate mortgages from Philippine National Bank.^[2]

The loan was in the total amount of P700 million, divided into two (2) kinds of loan accommodations: a revolving credit line of P300 million, and a seven-year long-term loan of P400 million.^[3]

To secure the loan, real estate mortgages were constituted on four (4) parcels of land registered with the Registry of Deeds of Davao City.^[4] The parcels of land covered by TCT Nos. T-147820, T-151138, and T-147821 were registered in the name of Davao Sunrise, while the parcel of land covered by TCT No. T-140122 was registered in the name of Spouses Limso.^[5]

In 1995, Spouses Limso sold the parcel of land covered by TCT No. T-140122 to Davao Sunrise.^[6]

Spouses Limso and Davao Sunrise had difficulty in paying their loan. In 1999, they requested that their loan be restructured. After negotiations, Spouses Limso, Davao Sunrise, and Philippine National Bank executed a Conversion, Restructuring and Extension Agreement.^[7]

The principal obligation in the restructured agreement totalled P1.067 billion. This included P217.15 million unpaid interest.^[8]

The restructured loan was divided into two (2) parts. Loan I was for the principal amount of P5 83.18 million, while Loan II was for the principal amount of P483.78 million.^[9] The restructured loan was secured by the same real estate mortgage over four (4) parcels of land in the original loan agreement. All the properties were registered in the name of Davao Sunrise.^[10]

The terms of the restructured loan agreement state:

SECTION 1. TERMS OF THE CONVERSION,
RESTRUCTURING AND EXTENSION

1.01 The Conversion/Restructuring/Extension. Upon compliance by the Borrowers with the conditions precedent provided herein, the Obligations shall be converted, restructured and/or its term extended effective January 1, 1999 (the "Effectivity Date") in the form of term loans (the "Loans") as follows:

(a) The Credit Line portion of the Obligations is hereby converted and restructured into a Seven-Year Long Term Loan (the "Loan I") in the principal amount of P583.18 Million;

(b) The original term of the Loan is hereby extended for another four (4) years (from September 1, 2001 to December 31, 2005), and interest portion of the Obligations (including the interest accruing on the Credit Line and Loan up to December 31, 1998 estimated at P49.83 Million) are hereby capitalized. Accordingly, both the Loan and Interest portions of the Obligations are hereby consolidated into a Term Loan (the "Loan II") in the aggregate principal amount of P483.78 Million;

SECTION 2. TERMS OF LOAN I

2.01 Amount of Loan I. Loan I shall be in the principal amount not exceeding PESOS: FIVE HUNDRED EIGHTY THREE MILLION ONE HUNDRED EIGHTY THOUSAND (P583,180,000.00).

2.02 Promissory Note. Loan I shall be evidenced by a promissory note (the "Note I") to be issued by the Borrowers in favor of the Bank in form and substance satisfactory to the Bank.

2.03 Principal Repayment. The Borrowers agree to repay Loan I within a period of seven (7) years (inclusive of a one (1) year grace period) in monthly amortizations with the first amortization to commence on January 2000 and a balloon payment on or before the end of the 7th year on December 2005.

2.04 Interest. (a) *The Borrowers agree to pay the Bank interest on Loan I from the Effective Date, until the date of full payment thereof at the rate per annum to be set by the Bank. The interest rate shall be reset by the Bank every month.*

(b) *The interest provided in clause (a) above shall be payable monthly in arrears to commence on January, 1999.*

SECTION 3. TERMS OF LOAN II

3.01 Amount of Loan II. Loan II shall be in the principal amount not exceeding PESOS: FOUR HUNDRED EIGHTY THREE MILLION SEVEN HUNDRED EIGHTY THOUSAND (P483,780,00.00).

3.02 Promissory Note. Loan II shall be evidenced by a promissory note (the "Note II") to be issued by the Borrowers in favor of the Bank in form and substance satisfactory to the Bank.

3.03 Principal Repayment. The Borrowers agree to repay Loan II within a period of seven (7) years (inclusive of a one (1) year grace period) in monthly amortizations with the first amortization to commence on January 2000 and a balloon payment on or before December 2005.

3.04 Interest, (a) *The Borrowers agree to pay the Bank interest on Loan II from the Effective Date, until the date of full payment thereof at the rate per annum to be set by the Bank. The interest rate shall be reset by the Bank every month.*

(b) The interest provided in clause (a) above shall be payable monthly in arrears to commence on January 1999.^[11] (Emphasis provided)

Spouses Limso and Davao Sunrise executed promissory notes, both dated January 5, 1999, in Philippine National Bank's favor. The promissory notes bore the amounts of P583,183,333.34 and P483,811,798.93.^[12] The promissory note for Loan II includes interest charges because one of the preambular clauses of the Conversion, Restructuring and Extension Agreement states that:

WHEREAS, the Borrowers acknowledge that they have outstanding obligations (the "Obligations") with the Bank broken down as follows:

- (i) Credit Line - P583.18 Million (as of September 30, 1998);
- (ii) Loan - P266.67 Million (as of September 30, 1998); and
- (iii) Interest - P217.15 Million (as of December 31, 1998)[.]

^[13]

Spouses Limso and Davao Sunrise encountered financial difficulties. Despite the restructuring of their loan, they were still unable to pay.^[14] Philippine National Bank sent demand letters. Still, Spouses Limso and Davao Sunrise failed to pay.^[15]

On August 21, 2000, Philippine National Bank filed a Petition for Extrajudicial Foreclosure of Real Estate Mortgage before the Sheriff's Office in Davao City.^[16] The Notice of Foreclosure was published. The bank allegedly complied with all the other legal requirements under Act No. 3135.^[17] The auction sale was held on October 26, 2000. Ball Park Realty Corporation, through its representative Samson G. To, submitted its bid in the amount of P1,521,045,331.49.^[18] Philippine National Bank's bid was in the amount of P1,521,055,331.49. Thus, it was declared the highest

bidder.^[19]

After the foreclosure sale, but before the Sheriff could issue the Provisional Certificate of Sale,^[20] Spouses Limso and Davao Sunrise filed a Complaint for Reformation or Annulment of contract against Philippine National Bank, Arty. Marilou D. Aldevera, in her capacity as Ex-Officio Provincial Sheriff of Davao City, and the Register of Deeds of Davao City.^[21] The Complaint was filed on October 30, 2000, raffled to Branch 17 of the Regional Trial Court of Davao City, and docketed as Civil Case No. 28,170-2000.^[22] It prayed for:

[the] declaration of nullity of unilateral imposition and increases of interest rates, crediting of illegal interests collected to [Spouses Limso and Davao Sunrise's] account; elimination of all uncollected illegal interests; reimposition of new interest rates at 12% per annum only from date of filing of Complaint, total elimination of penalties; elimination also of attorney's fees or its reduction; declaration of nullity of auction sale and the foreclosure proceedings; reduction of both loan accounts; reformation or annulment of contract, reconveyance, damages and injunction and restraining order.^[23]

Immediately after the Complaint was filed, the Executive Judge^[24] of the Regional Trial Court of Davao City issued a 72-hour restraining order preventing Philippine National Bank from taking possession and selling the foreclosed properties.^[25]

Spouses Limso subsequently filed an amended Complaint.^[26] The prayer in the amended Complaint stated:

PRAYER

WHEREFORE, it is respectfully prayed that judgment issue in favor of plaintiffs and against the defendants:

ON THE TEMPORARY RESTRAINING ORDER

1. That, upon the filing of the above-entitled case, a TEMPORARY RESTRAINING ORDER be maintained enjoining the defendants from executing the provisional Certificate of Sale and final Deed of Absolute Sale; confirmation of such sale; taking immediate possession thereof and from selling to third parties those properties covered by TCT Nos. T-147820, T-147821/T-246386 and T-247012 and its improvements nor to mortgage or pledge the same prior to the final outcome of the above-entitled case, including other additional acts of foreclosure;

2. That, plaintiffs' application for the issuance of the [Writ of Preliminary Injunction] be concluded within the 20 days lifetime period of the [Temporary Restraining Order], and