

SECOND DIVISION

[G.R. No. 160545, March 09, 2010]

**PRISMA CONSTRUCTION & DEVELOPMENT CORPORATION AND
ROGELIO S. PANTALEON, PETITIONERS, VS. ARTHUR F.
MENCHAVEZ, RESPONDENT.**

D E C I S I O N

BRION, J.:

We resolve in this Decision the petition for review on *certiorari*^[1] filed by petitioners Prisma Construction & Development Corporation (*PRISMA*) and Rogelio S. Pantaleon (*Pantaleon*) (collectively, *petitioners*) who seek to reverse and set aside the Decision^[2] dated May 5, 2003 and the Resolution^[3] dated October 22, 2003 of the Former Ninth Division of the Court of Appeals (CA) in CA-G.R. CV No. 69627. The assailed CA Decision affirmed the Decision of the Regional Trial Court (RTC), Branch 73, Antipolo City in Civil Case No. 97-4552 that held the petitioners liable for payment of P3,526,117.00 to respondent Arthur F. Menchavez (*respondent*), but modified the interest rate from 4% per month to 12% per annum, computed from the filing of the complaint to full payment. The assailed CA Resolution denied the petitioners' Motion for Reconsideration.

FACTUAL BACKGROUND

The facts of the case, gathered from the records, are briefly summarized below.

On December 8, 1993, Pantaleon, the President and Chairman of the Board of PRISMA, obtained a **P1,000,000.00**^[4] **loan from the respondent, with a monthly interest of P40,000.00 payable for six months**, or a total obligation of P1,240,000.00 to be paid within six (6) months,^[5] under the following schedule of payments:

January 8, 1994	P40,000.00
February 8, 1994	P40,000.00
March 8, 1994	P40,000.00
April 8, 1994	P40,000.00
May 8, 1994	P40,000.00
June 8, 1994	<u>P1,040,000.00</u> ^[6]
Total P1,240,000.00	

To secure the payment of the loan, Pantaleon issued a promissory note^[7] that states:

I, Rogelio S. Pantaleon, hereby acknowledge the receipt of ONE MILLION TWO HUNDRED FORTY THOUSAND PESOS (P1,240,000), Philippine Currency, from Mr. Arthur F. Menchavez, representing a six-month loan payable according to the following schedule:

January 8, 1994	P40,000.00
February 8, 1994	P40,000.00
March 8, 1994	P40,000.00
April 8, 1994	P40,000.00
May 8, 1994	P40,000.00
June 8, 1994	P1,040,000.00

The checks corresponding to the above amounts are hereby acknowledged.^[8]

and six (6) postdated checks corresponding to the schedule of payments. Pantaleon signed the promissory note in his personal capacity,^[9] and as duly authorized by the Board of Directors of PRISMA.^[10] The petitioners failed to completely pay the loan within the stipulated six (6)-month period.

From September 8, 1994 to January 4, 1997, the petitioners paid the following amounts to the respondent:

September 8, 1994	P320,000.00
October 8, 1995.....	P600,000.00
November 8, 1995.....	P158,772.00
January 4, 1997	P30,000.00 ^[11]

As of January 4, 1997, the petitioners had already paid a total of P1,108,772.00. However, the respondent found that the petitioners still had an outstanding balance of P1,364,151.00 as of January 4, 1997, to which it **applied a 4% monthly interest.**^[12] Thus, on August 28, 1997, the respondent filed a complaint for sum of money with the RTC to enforce the unpaid balance, **plus 4% monthly interest,** P30,000.00 in attorney's fees, P1,000.00 per court appearance and costs of suit.^[13]

In their Answer dated October 6, 1998, the petitioners admitted the loan of P1,240,000.00, but denied the stipulation on the 4% monthly interest, arguing that the interest was not provided in the promissory note. Pantaleon also denied that he made himself personally liable and that he made representations that the loan would be repaid within six (6) months.^[14]

THE RTC RULING

The RTC rendered a Decision on October 27, 2000 finding that the respondent issued a check for P1,000,000.00 in favor of the petitioners for a loan that would earn an interest of 4% or P40,000.00 per month, or a total of P240,000.00 for a 6-month period. It noted that the petitioners made several payments amounting to P1,228,772.00, but they were still indebted to the respondent for P3,526,117.00 as of February **11,**^[15] 1999 after considering the 4% monthly interest. The RTC

observed that PRISMA was a one-man corporation of Pantaleon and used this circumstance to justify the piercing of the veil of corporate fiction. Thus, the RTC ordered the petitioners to jointly and severally pay the respondent the amount of P3,526,117.00 plus 4% per month interest from February 11, 1999 until fully paid.

[16]

The petitioners elevated the case to the CA *via* an ordinary appeal under Rule 41 of the Rules of Court, insisting that there was no express stipulation on the 4% monthly interest.

THE CA RULING

The CA decided the appeal on May 5, 2003. The CA found that the parties agreed to a 4% monthly interest principally based on the board resolution that authorized Pantaleon to transact a loan with an approved interest of not more than 4% per month. The appellate court, however, noted that the interest of 4% per month, or 48% per annum, was unreasonable and should be reduced to 12% per annum. The CA affirmed the RTC's finding that PRISMA was a mere instrumentality of Pantaleon that justified the piercing of the veil of corporate fiction. Thus, the CA modified the RTC Decision by imposing a 12% per annum interest, computed from the filing of the complaint until finality of judgment, and thereafter, 12% from finality until fully paid.[17]

After the CA's denial^[18] of their motion for reconsideration,^[19] the petitioners filed the present petition for review on *certiorari* under Rule 45 of the Rules of Court.

THE PETITION

The petitioners submit that the CA mistakenly relied on their board resolution to conclude that the parties agreed to a 4% monthly interest because the board resolution was not an evidence of a loan or forbearance of money, but merely an authorization for Pantaleon to perform certain acts, including the power to enter into a contract of loan. The expressed mandate of Article 1956 of the Civil Code is that interest due should be stipulated in writing, and no such stipulation exists. Even assuming that the loan is subject to 4% monthly interest, the interest covers the six (6)-month period only and cannot be interpreted to apply beyond it. The petitioners also point out the glaring inconsistency in the CA Decision, which reduced the interest from 4% per month or 48% per annum to 12% per annum, but failed to consider that the amount of P3,526,117.00 that the RTC ordered them to pay includes the compounded 4% monthly interest.

THE CASE FOR THE RESPONDENT

The respondent counters that the CA correctly ruled that the loan is subject to a 4% monthly interest because the board resolution is attached to, and an integral part of, the promissory note based on which the petitioners obtained the loan. The respondent further contends that the petitioners are estopped from assailing the 4% monthly interest, since they agreed to pay the 4% monthly interest on the principal amount under the promissory note and the board resolution.

THE ISSUE

The core issue boils down to whether the parties agreed to the 4% monthly interest on the loan. If so, does the rate of interest apply to the 6-month payment period only or until full payment of the loan?

OUR RULING

We find the petition meritorious.

Interest due should be stipulated in writing; otherwise, 12% per annum

Obligations arising from contracts have the force of law between the contracting parties and should be complied with in good faith.^[20] When the terms of a contract are clear and leave no doubt as to the intention of the contracting parties, the literal meaning of its stipulations governs.^[21] In such cases, courts have no authority to alter the contract by construction or to make a new contract for the parties; a court's duty is confined to the interpretation of the contract the parties made for themselves without regard to its wisdom or folly, as the court cannot supply material stipulations or read into the contract words the contract does not contain.^[22] It is only when the contract is vague and ambiguous that courts are permitted to resort to the interpretation of its terms to determine the parties' intent.

In the present case, the respondent issued a check for P1,000,000.00.^[23] In turn, Pantaleon, in his personal capacity and as authorized by the Board, executed the promissory note quoted above. Thus, the P1,000,000.00 loan shall be payable within six (6) months, or from January 8, 1994 up to June 8, 1994. During this period, the loan shall earn an interest of P40,000.00 per month, for a total obligation of P1,240,000.00 for the six-month period. **We note that this agreed sum can be computed at 4% interest per month, but no such rate of interest was stipulated in the promissory note; rather a fixed sum equivalent to this rate was agreed upon.**

Article 1956 of the Civil Code specifically mandates that "no interest shall be due unless it has been expressly stipulated in writing." Under this provision, the payment of interest in loans or forbearance of money is allowed only if: (1) there was an express stipulation for the payment of interest; and (2) the agreement for the payment of interest was reduced in writing. The concurrence of the two conditions is required for the payment of interest at a stipulated rate. Thus, we held in *Tan v. Valdehueza*^[24] and *Ching v. Nicdao*^[25] that collection of interest without any stipulation in writing is prohibited by law.

Applying this provision, we find that the interest of P40,000.00 per month corresponds only to the six (6)-month period of the loan, or from January 8, 1994 to June 8, 1994, as agreed upon by the parties in the promissory note. Thereafter, the interest on the loan should be at the legal interest rate of 12% *per annum*, consistent with our ruling in *Eastern Shipping Lines, Inc. v. Court of Appeals*:^[26]

When the obligation is breached, and it consists in the payment of a sum of money, i.e., a loan or forbearance of money, the interest due should be that which may have been stipulated in writing. Furthermore, the interest due shall itself earn legal interest from the time it is judicially demanded. **In the absence of stipulation, the rate of interest shall be 12% per annum to be computed from default**, i.e., from judicial or extrajudicial demand under and subject to the provisions of Article 1169 of the Civil Code." (Emphasis supplied)

We reiterated this ruling in *Security Bank and Trust Co. v. RTC-Makati*, Br. 61,^[27] *Sulit v. Court of Appeals*,^[28] *Crismina Garments, Inc. v. Court of Appeals*,^[29] *Eastern Assurance and Surety Corporation v. Court of Appeals*,^[30] *Sps. Catungal v. Hao*,^[31] *Yong v. Tiu*,^[32] and *Sps. Barrera v. Sps. Lorenzo*.^[33] Thus, the RTC and the CA misappreciated the facts of the case; they erred in finding that the parties agreed to a 4% interest, compounded by the application of this interest beyond the promissory note's six (6)-month period. The facts show that the parties agreed to the payment of a **specific sum of money** of P40,000.00 per month for six months, not to a 4% rate of interest payable within a six (6)-month period.

Medel v. Court of Appeals not applicable

The CA misapplied *Medel v. Court of Appeals* ^[34] in finding that a 4% interest per month was unconscionable.

In *Medel*, the debtors in a P500,000.00 loan were required to pay an interest of 5.5% per month, a service charge of 2% per annum, and a penalty charge of 1% per month, plus attorney's fee equivalent to 25% of the amount due, until the loan is fully paid. Taken in conjunction with the stipulated service charge and penalty, we found the interest rate of 5.5% to be excessive, iniquitous, unconscionable, exorbitant and hence, contrary to morals, thereby rendering the stipulation null and void.

Applying *Medel*, we invalidated and reduced the stipulated interest in *Spouses Solangon v. Salazar* ^[35] of 6% per month or 72% per annum interest on a P60,000.00 loan; in *Ruiz v. Court of Appeals*, ^[36] of 3% per month or 36% per annum interest on a P3,000,000.00 loan; in *Imperial v. Jaucian*, ^[37] of 16% per month or 192% per annum interest on a P320,000.00 loan; in *Arrofo v. Quiño*, ^[38] of 7% interest per month or 84% per annum interest on a P15,000.00 loan; in *Bulos, Jr. v. Yasuma*, ^[39] of 4% per month or 48% per annum interest on a P2,500,000.00 loan; and in *Chua v. Timan*, ^[40] of 7% and 5% per month for loans totalling P964,000.00. We note that in all these cases, the terms of the loans were open-ended; the stipulated interest rates were applied for an indefinite period.

Medel finds no application in the present case where no other stipulation exists for the payment of any extra amount except a **specific sum of P40,000.00 per month** on the principal of a loan payable within six months. Additionally, no issue on the excessiveness of the stipulated amount of P40,000.00 per month was ever put in issue by the petitioners;^[41] they only assailed the application of a 4%