

THIRD DIVISION

[G.R. No. 173227, January 19, 2009]

**SEBASTIAN SIGA-AN, PETITIONER, VS. ALICIA VILLANUEVA,
RESPONDENT.**

DECISION

CHICO-NAZARIO, J.:

Before Us is a Petition^[1] for Review on *Certiorari* under Rule 45 of the Rules of Court seeking to set aside the Decision,^[2] dated 16 December 2005, and Resolution,^[3] dated 19 June 2006 of the Court of Appeals in CA-G.R. CV No. 71814, which affirmed in *toto* the Decision,^[4] dated 26 January 2001, of the Las Pinas City Regional Trial Court, Branch 255, in Civil Case No. LP-98-0068.

The facts gathered from the records are as follows:

On 30 March 1998, respondent Alicia Villanueva filed a complaint^[5] for sum of money against petitioner Sebastian Siga-an before the Las Pinas City Regional Trial Court (RTC), Branch 255, docketed as Civil Case No. LP-98-0068. Respondent alleged that she was a businesswoman engaged in supplying office materials and equipments to the Philippine Navy Office (PNO) located at Fort Bonifacio, Taguig City, while petitioner was a military officer and comptroller of the PNO from 1991 to 1996.

Respondent claimed that sometime in 1992, petitioner approached her inside the PNO and offered to loan her the amount of P540,000.00. Since she needed capital for her business transactions with the PNO, she accepted petitioner's proposal. The loan agreement was not reduced in writing. Also, there was no stipulation as to the payment of interest for the loan.^[6]

On 31 August 1993, respondent issued a check worth P500,000.00 to petitioner as partial payment of the loan. On 31 October 1993, she issued another check in the amount of P200,000.00 to petitioner as payment of the remaining balance of the loan. Petitioner told her that since she paid a total amount of P700,000.00 for the P540,000.00 worth of loan, the excess amount of P160,000.00 would be applied as interest for the loan. Not satisfied with the amount applied as interest, petitioner pestered her to pay additional interest. Petitioner threatened to block or disapprove her transactions with the PNO if she would not comply with his demand. As all her transactions with the PNO were subject to the approval of petitioner as comptroller of the PNO, and fearing that petitioner might block or unduly influence the payment of her vouchers in the PNO, she conceded. Thus, she paid additional amounts in cash and checks as interests for the loan. She asked petitioner for receipt for the payments but petitioner told her that it was not necessary as there was mutual trust and confidence between them. According to her computation, the total amount she

paid to petitioner for the loan and interest accumulated to P1,200,000.00.^[7]

Thereafter, respondent consulted a lawyer regarding the propriety of paying interest on the loan despite absence of agreement to that effect. Her lawyer told her that petitioner could not validly collect interest on the loan because there was no agreement between her and petitioner regarding payment of interest. Since she paid petitioner a total amount of P1,200,000.00 for the P540,000.00 worth of loan, and upon being advised by her lawyer that she made overpayment to petitioner, she sent a demand letter to petitioner asking for the return of the excess amount of P660,000.00. Petitioner, despite receipt of the demand letter, ignored her claim for reimbursement.^[8]

Respondent prayed that the RTC render judgment ordering petitioner to pay respondent (1) P660,000.00 plus legal interest from the time of demand; (2) P300,000.00 as moral damages; (3) P50,000.00 as exemplary damages; and (4) an amount equivalent to 25% of P660,000.00 as attorney's fees.^[9]

In his answer^[10] to the complaint, petitioner denied that he offered a loan to respondent. He averred that in 1992, respondent approached and asked him if he could grant her a loan, as she needed money to finance her business venture with the PNO. At first, he was reluctant to deal with respondent, because the latter had a spotty record as a supplier of the PNO. However, since respondent was an acquaintance of his officemate, he agreed to grant her a loan. Respondent paid the loan in full.^[11]

Subsequently, respondent again asked him to give her a loan. As respondent had been able to pay the previous loan in full, he agreed to grant her another loan. Later, respondent requested him to restructure the payment of the loan because she could not give full payment on the due date. He acceded to her request. Thereafter, respondent pleaded for another restructuring of the payment of the loan. This time he rejected her plea. Thus, respondent proposed to execute a promissory note wherein she would acknowledge her obligation to him, inclusive of interest, and that she would issue several postdated checks to guarantee the payment of her obligation. Upon his approval of respondent's request for restructuring of the loan, respondent executed a promissory note dated 12 September 1994 wherein she admitted having borrowed an amount of P1,240,000.00, inclusive of interest, from petitioner and that she would pay said amount in March 1995. Respondent also issued to him six postdated checks amounting to P1,240,000.00 as guarantee of compliance with her obligation. Subsequently, he presented the six checks for encashment but only one check was honored. He demanded that respondent settle her obligation, but the latter failed to do so. Hence, he filed criminal cases for Violation of the Bouncing Checks Law (Batas Pambansa Blg. 22) against respondent. The cases were assigned to the Metropolitan Trial Court of Makati City, Branch 65 (MeTC).^[12]

Petitioner insisted that there was no overpayment because respondent admitted in the latter's promissory note that her monetary obligation as of 12 September 1994 amounted to P1,240,000.00 inclusive of interests. He argued that respondent was already estopped from complaining that she should not have paid any interest, because she was given several times to settle her obligation but failed to do so. He maintained that to rule in favor of respondent is tantamount to concluding that the

loan was given interest-free. Based on the foregoing averments, he asked the RTC to dismiss respondent's complaint.

After trial, the RTC rendered a Decision on 26 January 2001 holding that respondent made an overpayment of her loan obligation to petitioner and that the latter should refund the excess amount to the former. It ratiocinated that respondent's obligation was only to pay the loaned amount of P540,000.00, and that the alleged interests due should not be included in the computation of respondent's total monetary debt because there was no agreement between them regarding payment of interest. It concluded that since respondent made an excess payment to petitioner in the amount of P660,000.00 through mistake, petitioner should return the said amount to respondent pursuant to the principle of *solutio indebiti*.^[13]

The RTC also ruled that petitioner should pay moral damages for the sleepless nights and wounded feelings experienced by respondent. Further, petitioner should pay exemplary damages by way of example or correction for the public good, plus attorney's fees and costs of suit.

The dispositive portion of the RTC Decision reads:

WHEREFORE, in view of the foregoing evidence and in the light of the provisions of law and jurisprudence on the matter, judgment is hereby rendered in favor of the plaintiff and against the defendant as follows:

- (1) Ordering defendant to pay plaintiff the amount of P660,000.00 plus legal interest of 12% per annum computed from 3 March 1998 until the amount is paid in full;
- (2) Ordering defendant to pay plaintiff the amount of P300,000.00 as moral damages;
- (3) Ordering defendant to pay plaintiff the amount of P50,000.00 as exemplary damages;
- (4) Ordering defendant to pay plaintiff the amount equivalent to 25% of P660,000.00 as attorney's fees; and
- (5) Ordering defendant to pay the costs of suit.^[14]

Petitioner appealed to the Court of Appeals. On 16 December 2005, the appellate court promulgated its Decision affirming *in toto* the RTC Decision, thus:

WHEREFORE, the foregoing considered, the instant appeal is hereby DENIED and the assailed decision [is] AFFIRMED *in toto*.^[15]

Petitioner filed a motion for reconsideration of the appellate court's decision but this was denied.^[16] Hence, petitioner lodged the instant petition before us assigning the following errors:

I.

THE RTC AND THE COURT OF APPEALS ERRED IN RULING THAT NO

INTEREST WAS DUE TO PETITIONER;

II.

THE RTC AND THE COURT OF APPEALS ERRED IN APPLYING THE PRINCIPLE OF *SOLUTIO INDEBITI*.^[17]

Interest is a compensation fixed by the parties for the use or forbearance of money. This is referred to as monetary interest. Interest may also be imposed by law or by courts as penalty or indemnity for damages. This is called compensatory interest.^[18] The right to interest arises only by virtue of a contract or by virtue of damages for delay or failure to pay the principal loan on which interest is demanded.^[19]

Article 1956 of the Civil Code, which refers to monetary interest,^[20] specifically mandates that no interest shall be due unless it has been expressly stipulated in writing. As can be gleaned from the foregoing provision, payment of monetary interest 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 monetary interest. Thus, we have held that collection of interest without any stipulation therefor in writing is prohibited by law.^[21]

It appears that petitioner and respondent did not agree on the payment of interest for the loan. Neither was there convincing proof of written agreement between the two regarding the payment of interest. Respondent testified that although she accepted petitioner's offer of loan amounting to P540,000.00, there was, nonetheless, no verbal or written agreement for her to pay interest on the loan.^[22]

Petitioner presented a handwritten promissory note dated 12 September 1994^[23] wherein respondent purportedly admitted owing petitioner "capital and interest." Respondent, however, explained that it was petitioner who made a promissory note and she was told to copy it in her own handwriting; that all her transactions with the PNO were subject to the approval of petitioner as comptroller of the PNO; that petitioner threatened to disapprove her transactions with the PNO if she would not pay interest; that being unaware of the law on interest and fearing that petitioner would make good of his threats if she would not obey his instruction to copy the promissory note, she copied the promissory note in her own handwriting; and that such was the same promissory note presented by petitioner as alleged proof of their written agreement on interest.^[24] Petitioner did not rebut the foregoing testimony. It is evident that respondent did not really consent to the payment of interest for the loan and that she was merely tricked and coerced by petitioner to pay interest. Hence, it cannot be gainfully said that such promissory note pertains to an express stipulation of interest or written agreement of interest on the loan between petitioner and respondent.

Petitioner, nevertheless, claims that both the RTC and the Court of Appeals found that he and respondent agreed on the payment of 7% rate of interest on the loan; that the agreed 7% rate of interest was duly admitted by respondent in her testimony in the Batas Pambansa Blg. 22 cases he filed against respondent; that despite such judicial admission by respondent, the RTC and the Court of Appeals,

citing Article 1956 of the Civil Code, still held that no interest was due him since the agreement on interest was not reduced in writing; that the application of Article 1956 of the Civil Code should not be absolute, and an exception to the application of such provision should be made when the borrower admits that a specific rate of interest was agreed upon as in the present case; and that it would be unfair to allow respondent to pay only the loan when the latter very well knew and even admitted in the Batas Pambansa Blg. 22 cases that there was an agreed 7% rate of interest on the loan.^[25]

We have carefully examined the RTC Decision and found that the RTC did not make a ruling therein that petitioner and respondent agreed on the payment of interest at the rate of 7% for the loan. The RTC clearly stated that although petitioner and respondent entered into a valid oral contract of loan amounting to P540,000.00, they, nonetheless, never intended the payment of interest thereon.^[26] While the Court of Appeals mentioned in its Decision that it concurred in the RTC's ruling that petitioner and respondent agreed on a certain rate of interest as regards the loan, we consider this as merely an inadvertence because, as earlier elucidated, both the RTC and the Court of Appeals ruled that petitioner is not entitled to the payment of interest on the loan. The rule is that factual findings of the trial court deserve great weight and respect especially when affirmed by the appellate court.^[27] We found no compelling reason to disturb the ruling of both courts.

Petitioner's reliance on respondent's alleged admission in the Batas Pambansa Blg. 22 cases that they had agreed on the payment of interest at the rate of 7% deserves scant consideration. In the said case, respondent merely testified that after paying the total amount of loan, petitioner ordered her to pay interest.^[28] Respondent did not categorically declare in the same case that she and respondent made an *express* stipulation in writing as regards payment of interest at the rate of 7%. As earlier discussed, monetary interest is due only if there was an *express* stipulation in writing for the payment of interest.

There are instances in which an interest may be imposed even in the absence of express stipulation, verbal or written, regarding payment of interest. Article 2209 of the Civil Code states that if the obligation consists in the payment of a sum of money, and the debtor incurs delay, a legal interest of 12% per annum may be imposed as indemnity for damages if no stipulation on the payment of interest was agreed upon. Likewise, Article 2212 of the Civil Code provides that interest due shall earn legal interest from the time it is judicially demanded, although the obligation may be silent on this point.

All the same, the interest under these two instances may be imposed only as a penalty or damages for breach of contractual obligations. It cannot be charged as a compensation for the use or forbearance of money. In other words, the two instances apply only to compensatory interest and not to monetary interest.^[29] The case at bar involves petitioner's claim for monetary interest.

Further, said compensatory interest is not chargeable in the instant case because it was not duly proven that respondent defaulted in paying the loan. Also, as earlier found, no interest was due on the loan because there was no written agreement as regards payment of interest.