

SECOND DIVISION

[G.R. No. 170452, August 13, 2008]

**SALVADOR CHUA AND VIOLETA CHUA, PETITIONERS, VS.
RODRIGO TIMAN, MA. LYNN TIMAN AND LYDIA TIMAN,
RESPONDENTS.**

D E C I S I O N

QUISUMBING, J.:

Before us is a petition for review on certiorari assailing the Decision ^[1] and Resolution ^[2] dated March 9, 2005 and November 24, 2005, respectively, of the Court of Appeals in CA-G.R. CV No. 82865, which had affirmed the Decision ^[3] dated May 14, 2004 of the Regional Trial Court (RTC) of Quezon City, Branch 86, in Civil Case No. Q-00-41276. The Court of Appeals reduced the stipulated original interest rates of 7% and 5% per month to only 1% per month or 12% per annum and ordered petitioners to refund the excess interest payments by respondents.

The pertinent facts are as follows:

In February and March 1999, petitioners Salvador and Violeta Chua granted respondents Rodrigo, Ma. Lynn and Lydia Timan the following loans: a) P100,000; b) P200,000; c) P150,000; d) P107,000; e) P200,000; and f) P107,000. These loans were evidenced by promissory notes with interest of 7% per month, which was later reduced to 5% per month. Rodrigo and Ma. Lynn issued five (5) postdated checks to secure the loans, except for the P150,000 loan which was secured by a postdated check issued by Lydia.

Respondents paid the loans initially at 7% interest rate per month until September 1999 and then at 5% interest rate per month from October to December 1999. Sometime in March 2000, respondents offered to pay the principal amount of the loans through a Philippine National Bank manager's check worth P764,000, but petitioners refused to accept the same insisting that the principal amount of the loans totalled P864,000.

On May 3, 2000, respondents deposited P864,000 with the Clerk of Court of the RTC of Quezon City. Later, they filed a case for consignment and damages. Petitioners moved to dismiss the case, but the RTC denied the motion, as well as the subsequent motion for reconsideration.

By virtue of an order of Partial Judgment ^[4] dated October 16, 2002, the Clerk of Court of the RTC of Quezon City released the amount of P864,000 to petitioners.

Trial on the validity of the stipulated interests on the subject loans, as well as on the issue of damages, then proceeded.

On May 14, 2004, the RTC rendered a decision in favor of respondents. It ruled that the original stipulated interest rates of 7% and 5% per month were excessive. It further ordered petitioners to refund to respondents all interest payments in excess of the legal rate of 1% per month or 12% per annum. However, the RTC denied petitioners' claim for damages.

On appeal, the Court of Appeals affirmed the trial court's decision. The Court of Appeals declared illegal the stipulated interest rates of 7% and 5% per month for being excessive, iniquitous, unconscionable and exorbitant. Accordingly, the Court of Appeals reduced the stipulated interest rates of 7% and 5% per month (equivalent to 84% and 60% per annum, respectively) to a fair and reasonable rate of 1% per month or 12% per annum. The Court of Appeals also ordered petitioners to refund to respondents all interest payments in excess of 12% per annum. Petitioners sought reconsideration, but it was denied.

Hence, this petition raising the lone issue of:

WHETHER OR NOT THE HONORABLE COURT OF APPEALS COMMITTED A REVERSIBLE ERROR - OR ACTED NOT IN ACCORD WITH THE LAW AND JURISPRUDENCE - WHEN IT AFFIRMED THE JUDGMENT OF THE REGIONAL TRIAL COURT ORDERING THE RETURN OF THE EXCESS INTEREST TO RESPONDENTS. [5]

Essentially, the main issue is: (1) Did the Court of Appeals err in ruling that the original stipulated interest rates of 7% and 5%, equivalent to 84% and 60% per annum, are unconscionable, and in ordering petitioners to refund to respondents all payments of interest in excess of 12% per annum?

Petitioners aver that the stipulated interest of 5% monthly and higher cannot be considered unconscionable because these rates are not usurious by virtue of Central Bank (C.B.) Circular No. 905-82 [6] which had expressly removed the interest ceilings prescribed by the Usury Law. Petitioners add that respondents were *in pari delicto* since they agreed on the stipulated interest rates of 7% and 5% per month. They further aver they honestly believed that the interest rates they imposed on respondents' loans were not usurious.

Respondents, invoking *Medel v. Court of Appeals*, [7] counter that the stipulated interest rates of 7% and 5% per month are iniquitous, unconscionable and exorbitant, thus, they are entitled to the return of the excessive interest paid. They also contend that petitioners cannot raise the defense of *in pari delicto* for the first time on appeal. They further contend that the defense of good faith is a factual issue which cannot be raised by petitioners in a petition for review under Rule 45 of the Rules of Civil Procedure.

The petition is patently devoid of merit.

The stipulated interest rates of 7% and 5% per month imposed on respondents' loans must be equitably reduced to 1% per month or 12% per annum. [8] We need not unsettle the principle we had affirmed in a plethora of cases that stipulated interest rates of 3% [9] per month and higher [10] are excessive, iniquitous, unconscionable and exorbitant. Such stipulations are void for being contrary to