

THIRD DIVISION

[G.R. NO. 146708, December 13, 2005]

JOEL B. BORTIKEY, PETITIONER, VS. AFP RETIREMENT AND SEPARATION BENEFITS SYSTEM, RESPONDENT.

DECISION

CORONA, J.:

In this petition for review on certiorari, petitioner assails the October 9, 2000 decision^[1] of the Court of Appeals which denied his appeal^[2] from a decision^[3] of the Office of the President dated June 11, 1999.

On May 13, 1992, petitioner bought from respondent Armed Forces of the Philippines Retirement and Separation Benefits System (AFPRSBS) a parcel of land covered by TCT No. 221416 of the Register of Deeds of Caloocan City. The transaction was embodied in a contract to sell, the pertinent portion of which read:

THIRD – xxx BUYER hereby agrees and obliges himself/herself to pay the SELLER the sum of THREE HUNDRED TEN THOUSAND ONE HUNDRED (P310,100.00) Pesos, Philippine Currency as follows:

- a) The amount of THIRTY ONE THOUSAND TEN (P31,010.00) Pesos, Philippine Currency upon signing of this agreement and the same shall be considered as Down Payment xxx;
- b) The balance/total contract price of TWO HUNDRED SEVENTY-NINE THOUSAND NINETY (P279,090.00) Pesos, Philippine Currency shall be paid in sixty (60) consecutive monthly installments xxx amounting to EIGHT THOUSAND TWENTY-EIGHT Pesos and 85/100 (8,028.85) including interest at the rate of 24% per annum xxx

In case of failure on the part of the BUYER to pay the amortization due on the specified maturity date, the Buyer shall be given a seven-day grace period xxx. However, in the event that the BUYER fails to pay within the seven-day grace period, he shall be charged a penalty of 24% per annum to be reckoned from the first day of default.^[4]

On June 28, 1996, petitioner filed a complaint in the Housing and Land Use Regulatory Board^[5] (HLURB) alleging that the 24% annual interest stipulated in the contract was contrary to law and public morals. In dismissing the complaint, the HLURB ruled that the stipulated interest was valid because there was no ceiling on interest rates at the time of the perfection of the contract. Petitioner was therefore under the legal and contractual obligation to comply with the stipulation.^[6] The motion for reconsideration^[7] was denied.^[8]

Petitioner raised the matter to the Office of the President which, however, ruled for the legality of the stipulated interest. According to OP, contracts have the force of law between the contracting parties and should be complied with in good faith.^[9]

On appeal,^[10] the Court of Appeals ruled that the stipulated 24% annual interest was not contrary to law and public morals, having been mutually agreed upon by the parties.^[11] The motion for reconsideration was denied.^[12]

Undaunted, petitioner now comes to this Court raising once again the same issues, the crux of which is the legality of the stipulated interest of 24% per annum.

Basic is the principle that contracting parties may establish such stipulations, clauses, terms and conditions as they may deem convenient, provided these are not contrary to law, morals, good customs, public order or public policy.^[13] Obligations arising from contracts have the force of law between the contracting parties and should be complied with in good faith.^[14]

Petitioner was free to decide on the manner of payment, either in cash or installment. Since he opted to purchase the land on installment basis, he consented to the imposition of interest on the contract price. He cannot now unilaterally withdraw from it by disavowing the obligation created by the stipulation in the contract.

In *Relucio v. Brillante-Garfin*,^[15] this Court held that the vendor and the vendee were legally free to stipulate on the manner of payment. Since the vendee opted to purchase a subdivision lot on installment, he was obligated to pay interest on the cash price whether the imposition of interest and the rate of such interest were specified in the contract or not, i.e., whether or not the interest was specifically itemized as an add-on to the (cash) price which the vendee agreed to pay.

The rationale behind having to pay a higher sum on the installment is to compensate the vendor for waiting a number of years before receiving the total amount due. The amount of the stated contract price paid in full today is worth much more than a series of small payments totaling the same amount. Respondent vendor, had it received the full cash price, could have deposited the same in a bank, for instance, and earned interest income therefrom. To assert that mere prompt payment of the monthly installments should obviate imposition of the stipulated interest is to ignore an economic fact and negate one of the most important principles on which commerce operates.

The contract for the purchase of a piece of land on installment basis is not only lawful; it is also of widespread usage or custom in our economic system. Moreover, the contract was entered into by the parties freely and voluntarily. Petitioner had in fact been in possession of the property for several years already, paying the installments as they fell due, when he attacked the legality of the stipulated interest. If he eventually found the interest stipulation in the contract financially disadvantageous to him, he cannot now turn to this Court for succor without impairing the constitutional right to the obligation of contracts.^[16] This Court will not relieve petitioner of the necessary consequences of his free and voluntary, and