465 Phil. 999

FIRST DIVISION

[G.R. No. 158382, January 27, 2004]

MANSUETO CUATON, PETITIONER, VS. REBECCA SALUD AND COURT OF APPEALS (SPECIAL FOURTEENTH DIVISION), RESPONDENTS.

DECISION

YNARES-SATIAGO, J.:

Before the Court is a petition for review on certiorari assailing the August 31, 2001 Decision[1] of the Court of Appeals in CA-G.R. CV No. 54715 insofar as it affirmed the Judgment[2] of the Regional Trial Court of General Santos City, Branch 35, in SPL. Civil Case No. 359, imposing interest at the rate of 8% to 10% per month on the one-million-peso loan of petitioner.

On January 5, 1993, respondent Rebecca Salud, joined by her husband Rolando Salud, instituted a suit for foreclosure of real estate mortgage with damages against petitioner Mansueto Cuaton and his mother, Conchita Cuaton, with the Regional Trial Court of General Santos City, Branch 35, docketed as SPL. Civil Case No. 359.[3] The trial court rendered a decision declaring the mortgage constituted on October 31, 1991 as void, because it was executed by Mansueto Cuaton in favor of Rebecca Salud without expressly stating that he was merely acting as a representative of Conchita Cuaton, in whose name the mortgaged lot was titled. The court ordered petitioner to pay Rebecca Salud, *inter alia*, the loan secured by the mortgage in the amount of One Million Pesos plus a total P610,000.00 representing interests of 10% and 8% per month for the period February 1992 to August 1992, thus –

Original loan ----------	P1,000,000.00
10% interest for the month of February 1992 balance only -------	50,000.00
10% interest for the month of March 1992 ---------	100,000.00
10% interest for the month of April 1992 ----------	100,000.00
10% interest for the month of May 1992 ----------	100,000.00
10% interest for the month of June 1992 ----------	100,000.00
8% interest for the month of July 1992 ----------	80,000.00

8% interest for the month of August 1992 --------- 80,000.00

Total amount as of August 1992 ---------- P1, 610,000.00[4]

The dispositive portion of the trial court's decision, reads:

> WHEREFORE, premises considered, judgment is hereby rendered:
>
> a) Declaring the mortgage executed by Mansueto Cuaton over the property owned by Conchita Cuaton, covered by TCT NO. T-34460, dated October 31, 1991, in favor of Rebecca Salud as unauthorized, void and unenforceable against defendant, Conchita Cuaton hence, the TRO issued against the foreclosure thereof is hereby made permanent. The annotation of the mortgage over said property is likewise cancelled;
>
> b) Ordering defendant Mansueto Cuaton to pay plaintiff, Rebecca Salud, the sum of One Million Six Hundred Ten Thousand (P1,610,000.00) Pesos, with legal interest thereon, from January 5, 1993 until fully paid;
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> c) Ordering defendant, Mansueto Cuaton, to pay Attorney's fees of P25,000.00 in favor of the plaintiff, Rebecca Salud and to pay the cost of this suit.
>
> Defendants' counterclaims, being merely a result of the filing of plaintiff's complaint are hereby DISMISSED.
>
> SO ORDERED.[5]

Both parties filed their respective notices of appeal.[6]

On August 31, 2001, the Court of Appeals rendered the assailed decision affirming the judgment of the trial court. Petitioner filed a motion for partial reconsideration of the trial court's decision with respect to the award of interest in the amount of P610,000.00, arguing that the same was iniquitous and exorbitant.[7] This was denied by the Court of Appeals on May 7, 2003.[8]

Hence, the instant petition on the sole issue of whether the 8% and 10% monthly interest rates imposed on the one-million-peso loan obligation of petitioner to respondent Rebecca Salud are valid.

We find merit in the petition.

In *Ruiz v. Court of Appeals*,[9] we declared that the Usury Law was suspended by Central Bank Circular No. 905, s. 1982, effective on January 1, 1983, and that parties to a loan agreement have been given wide latitude to agree on any interest rate. However, nothing in the said Circular grants lenders *carte blanche* authority to raise interest rates to levels which will either enslave their borrowers or lead to a

hemorrhaging of their assets. The stipulated interest rates are illegal if they are unconscionable.

Thus, in *Medel v. Court of Appeals*,[10] and *Spouses Solangon v. Salazar*,[11] the Court annulled a stipulated 5.5% per month or 66% per annum interest on a P500,000.00 loan and a 6% per month or 72% per annum interest on a P60,000.00 loan, respectively, for being excessive, iniquitous, unconscionable and exorbitant. In both cases, the interest rates were reduced to 12% per annum.

In the present case, the 10% and 8% interest rates per month on the one-million-peso loan of petitioner are even higher than those previously invalidated by the Court in the above cases. Accordingly, the reduction of said rates to 12% per annum is fair and reasonable.

Stipulations authorizing iniquitous or unconscionable interests are contrary to morals ('*contra bonos mores*'), if not against the law.[12] Under Article 1409 of the Civil Code, these contracts are inexistent and void from the beginning. They cannot be ratified nor the right to set up their illegality as a defense be waived.[13]

Moreover, the contention regarding the excessive interest rates cannot be considered as an issue presented for the first time on appeal. The records show that petitioner raised the validity of the 10% monthly interest in his answer filed with the trial court.[14] To deprive him of his right to assail the imposition of excessive interests would be to sacrifice justice to technicality. Furthermore, an appellate court is clothed with ample authority to review rulings even if they are not assigned as errors. This is especially so if the court finds that their consideration is necessary in arriving at a just decision of the case before it. We have consistently held that an unassigned error closely related to an error properly assigned, or upon which a determination of the question raised by the error properly assigned is dependent, will be considered by the appellate court notwithstanding the failure to assign it as an error.[15] Since respondents pointed out the matter of interest in their Appellants' Brief[16] before the Court of Appeals, the fairness of the imposition thereof was opened to further evaluation. The Court therefore is empowered to review the same.

The case of *Eastern Shipping Lines, Inc. v. Court of Appeals*,[17] laid down the following guidelines on the imposition of interest, to wit:

> 1. 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 23 of the Civil Code.
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> 3. When the judgment of the court awarding a sum of money becomes final and executory, the rate of legal interest, whether the case falls