

THIRD DIVISION

[G.R. No. 130994, September 18, 2002]

**SPOUSES FELIMON AND MARIA BARRERA, PETITIONERS, VS.
SPOUSES EMILIANO AND MARIA CONCEPCION LORENZO,
RESPONDENTS.**

D E C I S I O N

SANDOVAL-GUTIERREZ, J.:

On December 4, 1990, spouses Felimon and Maria Barrera, petitioners, borrowed P230,000.00 from spouses Miguel and Mary Lazaro. The loan was secured by a real estate mortgage^[1] over petitioners' residential lot consisting of 432 square meters located at Bunlo, Bocaue, Bulacan and registered in their names under Transfer Certificate of Title (TCT) T-42.373 (M)^[2] of the Registry of Deeds of Bulacan.

A month and a half later, the Lazaro spouses needed money and informed petitioners that they would transfer the loan to spouses Emiliano and Maria Concepcion Lorenzo, respondents. Consequently, on May 14, 1991, petitioners executed another real estate mortgage^[3] over their lot, this time in favor of the respondents to secure the loan of P325,000.00, which the latter claimed as the amount they paid spouses Lazaro. The mortgage contract provides, among others, that the new loan shall be payable within three (3) months, or until August 14, 1991; that it shall earn interest at 5% per month; and that should petitioners fail to pay their loan within the said period, the mortgage shall be foreclosed.

When petitioners failed to pay their loan in full on August 14, 1991, respondents allowed them to complete their payment until December 23, 1993. On this date, they made a total payment of P687,000.00.

On January 17, 1994, respondents wrote petitioners demanding payment of P325,000.00, plus interest, otherwise they would foreclose the mortgage.^[4] In turn, petitioners responded, claiming that they have overpaid their obligation and demanding the return of their land title and refund of their excess payment.^[5] This prompted respondents to file a petition^[6] for extrajudicial foreclosure of mortgage with the Office of the Ex-Officio Sheriff, Malolos, Bulacan, docketed therein as EJP 19-94.

For their part, petitioners filed with the Regional Trial Court (RTC), Branch 17, Malolos, Bulacan, a complaint for the return of their TCT No. T-42.373 (M), sum of money and damages, with application for a temporary restraining order and preliminary injunction, docketed as Civil Case No. 156-M-94.^[7]

In their opposition^[8] to the application for a preliminary injunction, respondents alleged that petitioners' loan has been restructured three times and that their unpaid balance as of March 14, 1994 was P543,622.00.

After hearing petitioners' application for a preliminary injunction, the RTC issued an order,^[9] enjoining the sheriff from proceeding with the foreclosure of mortgage, upon their posting of a bond in the amount of P543,622.00.

Thereafter, trial on the merits ensued.

On July 31, 1995, the RTC rendered judgment,^[10] the dispositive portion of which reads:

"WHEREFORE, premises considered, judgment is hereby rendered in favor of the plaintiffs (now petitioners) and against the defendants (now respondents), ordering the latter:

1. to return to the plaintiffs the amount of P215,750.00 representing the overpaid amount;
2. to return to the plaintiffs the owner's copy of TCT No. T-42.373 (M) offered as security;
3. to pay P20,000.000 as attorney's fees;
4. to pay the costs of the suit.

"The writ of preliminary injunction issued on March 21, 1994 is hereby made permanent.

"SO ORDERED."^[11]

The trial court held that the stipulated 5% monthly interest to be paid by petitioners corresponds only to the period from May 14, 1991 up to August 14, 1991, the term of the loan. Thereafter, the monthly interest should be 12% per annum. The trial court concluded that petitioners made an overpayment of P214,750.00.

Upon appeal, docketed as CA GR-CV No. 51095, the Court of Appeals, in a Decision^[12] dated June 18, 1997, held:

"We reverse.

"The law and jurisprudence clearly provide that 'if the debt produces interest, payment of the principal shall not be deemed to have been made until the interests have been covered.' (Article 1253, New Civil Code; *Gobonseng, Jr. vs. Court of Appeals*, 246 SCRA 472). Once it is admitted that an obligation bears interest, partial payments are to be applied first on account of the interest and then to reduce the principal. (*San Jose vs. Ortega*, 11 Phil. 442; *Sunico vs. Ramirez*, 14 Phil. 500). We thus find no support, whether in law or in jurisprudence, for the Decision of the court a quo to apply 'the bigger amounts of P40,000.00, P37,000.00, P50,000.00 among others, given several times by the Barrera spouses x x x for the payment of the principal loan' when the interests due on the loan that have accumulated through the years have not been fully satisfied.

"We also do not agree that the stipulated monthly interest of 5% was to apply only to the 3-month effectivity period of the loan. This is a flawed and a grossly unfair interpretation of the terms and conditions of the

agreement of the parties. To rule in this wise is to sanction the irregular performance of one's obligation. The Barrera spouses will be emboldened not to pay their loan within the agreed period of 3-months since on the fourth month and thereafter, they do not have to pay anymore the 5% monthly interest, but only the 12% legal interest per annum, or a measly 1% interest per month. Such an interpretation is totally unfair and unjust to the creditors who could have used their money in some other ways. Until such time that the Barreras have fully paid their total indebtedness, the 5% monthly interest subsists, there being no stipulation to the contrary.

"While we commiserate with the plight of the Barrera spouses, we cannot change the terms of the loan agreement between them and the Lorenzos as 'the courts have no right to make contracts for (the) parties.' (Tolentino and Manio vs. Gonzales Sy Chian, 5 Phil. 577). A contract is the law between the parties which not even this Court can interfere with. The only requirement is that the same be not contrary to law, morals and good customs x x x (Article 1306, New Civil Code). We find the agreement to pay a 5% monthly interest until the loan is fully paid to be reasonable and sanctioned by regular usage and practice.

"The Barreras should, therefore, be required to pay the balance of their indebtedness, including the interests thereof. Failure to pay the same should warrant the foreclosure of their mortgaged property to satisfy their obligation to the Lorenzo spouses."^[13]

Petitioners filed a motion for reconsideration but was denied.^[14]

Hence this petition.

The sole issue for our resolution is whether the 5% monthly interest on the loan was only for three (3) months, or from May 14, 1991 up to August 14, 1991, as maintained by petitioners, or until the loan was fully paid, as claimed by respondents.

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.^[15] In such cases, courts have no authority to alter a contract by construction or to make a new contract for the parties; its duty is confined to the interpretation of the one which they have made for themselves without regard to its wisdom or folly as the court cannot supply material stipulations or read into the contract words which it does not contain.^[16] It is only when the contract is vague and ambiguous that courts are permitted to resort to construction of its terms and determine the intention of the parties therein.

The salient provisions of the mortgage contract read:

"a) Ang sanglaang ito ay **sa loob lamang ng tatlong (3) buwan, o hanggang sa Agosto 14, 1991.**

b) **Ang tubo na aming napagkasunduan ay 5%, o cinco por ciento isang buwan.**