

## SECOND DIVISION

**[ G.R. No. 128990, September 21, 2000 ]**

**INVESTORS FINANCE CORPORATION, PETITIONER, VS.  
AUTOWORLD SALES CORPORATION, AND PIO BARRETTO REALTY  
DEVELOPMENT CORPORATION, RESPONDENTS.**

### **D E C I S I O N**

**BELLOSILLO, J.:**

INVESTORS FINANCE CORPORATION seeks a review of the Decision of the Court of Appeals which ruled that the financing firm had entered into a usurious loan transaction with Autoworld Sales Corporation, thus entitling the latter to reimbursement of excess interest payments amounting to P2,586,035.44.<sup>[1]</sup>

Petitioner Investors Finance Corporation, then known also as FNCB Finance (now doing business under the name of Citytrust Finance Corporation), is a financing company doing business with private respondent Autoworld Sales Corporation

(AUTOWORLD) since 1975. Anthony Que, president of AUTOWORLD, also held the same position at its affiliate corporation, private respondent Pio Barretto Realty Corporation (BARRETTO).

Sometime in August 1980 Anthony Que, in behalf of AUTOWORLD, applied for a direct loan with FNCB. However, since the Usury Law imposed an interest rate ceiling at that time, FNCB informed Anthony Que that it was not engaged in direct lending; consequently, AUTOWORLD's request for loan was denied.

But sometime thereafter, FNCB's Assistant Vice President, Mr. Leoncio Araullo, informed Anthony Que that although it could not grant direct loans it could extend funds to AUTOWORLD by purchasing any of its outstanding receivables at a discount. After a series of negotiations the parties agreed to execute an Installment Paper Purchase ("IPP") transaction to enable AUTOWORLD to acquire the additional capital it needed. The mechanics of the proposed "IPP" transaction was -

(1) First, Pio Barretto (BARRETTO) would execute a Contract to Sell a parcel of land in favor of AUTOWORLD for P12,999,999.60 payable in sixty (60) equal monthly installments of P216,666.66. Consequently, BARRETTO would acquire P12,999,999.60 worth of receivables from AUTOWORLD;

(2) FNCB would then purchase the receivables worth P12,999,999.60 from BARRETTO at a discounted value of P6,980,000.00 subject to the condition that such amount would be "flowed back" to AUTOWORLD;

(3) BARRETTO, would in turn, execute a Deed of Assignment (in favor of

FNCB) obliging AUTOWORLD to pay the installments of the P12,999,999.60 purchase price directly to FNCB;<sup>[2]</sup> and

(4) Lastly, to secure the payment of the receivables under the Deed of Assignment, BARRETTO would mortgage the property subject of the sale to FNCB.

On 17 November 1980 FNCB informed AUTOWORLD that its Executive Committee approved the proposed "IPP" transaction.<sup>[3]</sup> The lawyers of FNCB then drafted the contracts needed and furnished Anthony Que with copies thereof.<sup>[4]</sup>

On 9 February 1981 the parties signed three (3) contracts to implement the "IPP" transaction:

(1) Contract to Sell whereby BARRETTO sold a parcel of land to AUTOWORLD, situated in San Miguel, Manila, together with the improvements thereon, covered by TCT No. 129763 for the price of P12,999,999.60 payable in sixty (60) consecutive and equal monthly installments of P216,666.66.

(2) Deed of Assignment whereby BARRETTO assigned and sold in favor of FNCB all its rights, title and interest to all the money and other receivables due from AUTOWORLD under the Contract to Sell, subject to the condition that the assignee (FNCB) has the right of recourse against the assignor (BARRETTO) in the event that the payor (AUTOWORLD) defaulted in the payment of its obligations.

(3) Real Estate Mortgage whereby BARRETTO, as assignor, mortgaged the property subject of the Contract to Sell to FNCB as security for payment of its obligation under the Deed of Assignment.<sup>[5]</sup>

After the three (3) contracts were concluded AUTOWORLD started paying the monthly installments to FNCB.

On 18 June 1982 AUTOWORLD transacted with FNCB for the second time obtaining a loan of P3,000,000.00 with an effective interest rate of 28% per annum.<sup>[6]</sup> AUTOWORLD and BARRETTO, as co-makers, then signed a promissory note in favor of FNCB worth P5,604,480.00 payable in sixty (60) consecutive monthly installments of P93,408.00.<sup>[7]</sup> To secure the promissory note, AUTOWORLD mortgaged a parcel of land located in Sampaloc, Manila, to FNCB.<sup>[8]</sup> Thereafter, AUTOWORLD began paying the installments.

In December 1982, after paying nineteen (19) monthly installments of P216,666.66 on the first transaction ("IPP" worth P6,980,000.00) and three (3) monthly installments of P93,408.00 on the second transaction (loan worth P3,000,000.00), AUTOWORLD advised FNCB that it intended to preterminate the two (2) transactions by paying their outstanding balances in full. It then requested FNCB to provide a computation of the remaining balances. FNCB sent AUTOWORLD its computation requiring it to pay a total amount of P10,026,736.78, where P6,784,551.24 was the amount to settle the first transaction while P3,242,165.54 was the amount to settle the second transaction.<sup>[9]</sup>

On 20 December 1982 AUTOWORLD wrote FNCB that it disagreed with the latter's computation of its outstanding balances.<sup>[10]</sup> On 27 December 1982 FNCB replied that it would only be willing to reconcile its accounting records with AUTOWORLD upon payment of the amounts demanded.<sup>[11]</sup> Thus, despite its objections, AUTOWORLD reluctantly paid FNCB P10,026,736.78 through its UCPB account.<sup>[12]</sup>

On 5 January 1983 AUTOWORLD asked FNCB for a refund of its overpayments in the total amount of P3,082,021.84.<sup>[13]</sup> According to AUTOWORLD, it overpaid P2,586,035.44 to settle the first transaction and P418,262.00 to settle the second transaction.<sup>[14]</sup>

The parties attempted to reconcile their accounting figures but the subsequent negotiations broke down prompting AUTOWORLD to file an action before the Regional Trial Court of Makati to annul the *Contract to Sell*, the *Deed of Assignment* and the *Real Estate Mortgage* all dated 9 February 1981. It likewise prayed for the nullification of the *Promissory Note* dated 18 June 1982 and the *Real Estate Mortgage* dated 24 June 1982.

In its complaint, AUTOWORLD alleged that the aforementioned contracts were only perfected to facilitate a usurious loan and therefore should be annulled. FNCB should refund the amounts of P2,586,035.44 as excess payment for the first transaction and P418,262.00 as excess payment for the second transaction. AUTOWORLD also asked for P500,000.00 as exemplary damages and P100,000.00 as attorney's fees.

FNCB argued that the contracts dated 9 February 1981 were not executed to hide a usurious loan. Instead, the parties entered into a legitimate Installment Paper Purchase ("IPP") transaction, or purchase of receivables at a discount, which FNCB could legally engage in as a financing company. With regard to the second transaction, the existence of a usurious interest rate had no bearing on the P3,000,000.00 loan since at the time it was perfected on 18 January 1982 Central Bank Circular No. 871 dated 21 July 1981 had effectively lifted the ceiling rates for loans having a period of more than three hundred sixty-five (365) days. FNCB also prayed for P2,000,000.00 as moral damages and P500,000.00 as attorney's fees.

On 18 January 1985 FNCB filed a *Third-Party Complaint* against BARRETTO based on the *Deed of Assignment*, which expressly provided that FNCB as assignee had a right of recourse against BARRETTO as assignor in case AUTOWORLD defaulted in its payments.<sup>[15]</sup>

BARRETTO countered that it could not be held liable for AUTOWORLD's alleged default in its payments since the *Deed of Assignment*, together with the *Contract to Sell* and the *Real Estate Mortgage*, was simulated and perfected only to facilitate a usurious loan. It prayed for P1,600,000.00 as damages and P100,000.00 as attorney's fees.<sup>[16]</sup>

On 11 July 1988 the Regional Trial Court of Makati ruled in favor of FNCB declaring that the parties voluntarily and knowingly executed a legitimate "IPP" transaction or the discounting of receivables. AUTOWORLD was not entitled to any reimbursement since it was unable to prove the existence of a usurious loan. On the other hand, it

was ordered to pay FNCB P50,000.00 for attorney's fees.<sup>[17]</sup>

The Court of Appeals modified the decision of the trial court and concluded that the "IPP" transaction, comprising of the three (3) contracts perfected on 9 February 1981, was merely a scheme employed by the parties to disguise a usurious loan. It ordered the annulment of the contracts and required FNCB to reimburse AUTOWORLD P2,586,035.44 as excess interest payments over the 12% ceiling rate. However, with regard to the second transaction, the appellate court ruled that at the time it was executed the ceiling rates imposed by the Usury Law had already been lifted thus allowing the parties to stipulate any rate of interest.<sup>[18]</sup> The appellate court deleted the award of P50,000.00 as attorney's fees in favor of FNCB explaining that the filing of the complaint against FNCB was exercised in good faith. Hence, this petition of FNCB.

We stress at the outset that this petition concerns itself only with the first transaction involving the alleged "IPP" worth P6,980,000.00, which was implemented through the three (3) contracts of 9 February 1981. As to the second transaction, which involves the P3,000,000.00 loan, we agree with the appellate court that it was executed when the ceiling rates of interest had already been removed, hence the parties were free to fix any interest rate.

The pivotal issue therefore is whether the three (3) contracts all dated 9 February 1981 were executed to implement a legitimate Installment Paper Purchase ("IPP") transaction or merely to conceal a usurious loan. Generally, the courts only need to rely on the face of written contracts to determine the intention of the parties. "However, the law will not permit a usurious loan to hide itself behind a legal form. Parol evidence is admissible to show that a written document though legal in form was in fact a device to cover usury. If from a construction of the whole transaction it becomes apparent that there exists a corrupt intention to violate the Usury Law, the courts should and will permit no scheme, however ingenious, to becloud the crime of usury."<sup>[19]</sup> The following circumstances show that such scheme was indeed employed:

*First*, petitioner claims that it was never a party to the *Contract to Sell* between AUTOWORLD and BARRETTO.<sup>[20]</sup> As far as it was concerned, it merely purchased receivables at a discount from BARRETTO as evidenced by the *Deed of Assignment* dated 9 February 1981. Whether the *Contract to Sell* was fictitious or not would have no effect on its right to claim the receivables of BARRETTO from AUTOWORLD since the two contracts were entirely separate and distinct from each other.

Curiously however, petitioner admitted that its lawyers were the ones who drafted all the three (3) contracts involved<sup>[21]</sup> which were executed on the same day.<sup>[22]</sup> Also, petitioner was the one who procured the services of the Asian Appraisal Company to determine the fair market value of the land to be sold way back in September of 1980 or six (6) months prior to the sale.<sup>[23]</sup> If it were true that petitioner was never privy to the *Contract to Sell*, then why was it interested in appraising the lot six (6) months prior to the sale? And why did petitioner's own lawyers prepare the *Contract to Sell*? Obviously, petitioner actively participated in the sale to ensure that the appraised lot would serve as adequate collateral for the usurious loan it gave to AUTOWORLD.

Second, petitioner insists that the 9 February 1981 transaction was a legitimate "IPP" transaction where it only bought the receivables of BARRETTO from AUTOWORLD amounting to P12,999,999.60 at a discounted price of P6,980,000.00. However, per instruction of petitioner in its letter to BARRETTO dated 17 November 1980 the whole purchase price of the receivables was to be "flowed back" to AUTOWORLD.<sup>[24]</sup> And in its subsequent letter of 24 February 1981 petitioner also gave instructions on how BARRETTO should apply the proceeds worth P6,980,000.00, thus -

*Gentlemen:*

*This serves to inform you of the various application of the proceeds (P6,980,000.00) of your real estate transaction per your authorization/letter dated 2.10.81:*

- 1. P1,937,884.20 - Paid to Paramount Finance Corp. on Feb 16, 1981, inclusive of P2.00 SC for Manager's Check.*
- 2. P111,818.87 - Paid to Agcaoili and Associates of Feb. 16, 1981 inclusive of P2.00 SC for Manager's Check for the preparation of documents, legal review , registration and transfer of ownership.*
- 3. P3,179,700.00 - Paid to FNCB Finance on Feb. 20, 1981 for full payment of DB transaction (Account No. 06156)*
- 4 P3,108.40 - Payment for the appraisal fee conducted by the Asian Appraisal Company. Inc.*
- 5. P100.00 - Payment for the title search fee conducted by Agcaoili and Associates.*
- 6. P2,500.00 - Payment for legal and professional fee (Agcaoili and Associates)*
- 7. P638,601.60 - Payment to FNCB Finance for the partial payment of DB transaction (Account No. 40150 - sold units)*
- 8. P122,640.00 - Payment to FNCB Finance for the partial payment of DB transaction (Account No. 406149 - sold units)*
- 9. P983,646.93 - Balance after application, Payable to Pio Barreto Dev. Inc.*

*P6,980,000.00 - Total*

*Should you need any clarification on the matter, please do not hesitate to call on the undersigned.*

*Very truly yours,  
L.V. Araullo, Asst Vice-  
President<sup>[25]</sup>*