



Republic of the Philippines
Supreme Court
Manila

SECOND DIVISION

METRO ALLIANCE HOLDINGS AND EQUITIES CORPORATION, POLYMAX WORLDWIDE LIMITED and WELLEX INDUSTRIES, INC.,
Petitioners,

G.R. No. 240495

- versus -

PHILIPPINE VETERANS BANK,
Respondent.

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PHILIPPINE VETERANS BANK,
Petitioner,

G.R. No. 240513

Present:

- versus -

PERLAS-BERNABE, S.A.J.,
Chairperson,

HERNANDO,
INTING,

METRO ALLIANCE HOLDINGS AND EQUITIES CORPORATION, POLYMAX WORLDWIDE LIMITED and WELLEX INDUSTRIES, INC.,
Respondents.

GAERLAN, and
ROSARIO,* JJ.

Promulgated:

SEP 15 2021

X-----X

DECISION

INTING, J.:

* Designated additional member per Special Order No. 2835 dated July 15, 2021.

Before the Court are two consolidated Petitions for Review on *Certiorari*¹ filed under Rule 45 of the Rules of Court which seek the review of the following issuances of the Court of Appeals (CA) in CA-G.R. CV No. 105323:

1. Decision² dated June 29, 2017;
2. Amended Decision³ dated February 28, 2018; and
3. Resolution⁴ dated July 2, 2018.

In G.R. No. 240495, Metro Alliance Holdings and Equities Corporation (MAHEC), Polymax Worldwide Limited (Polymax), and Wellex Industries, Inc. (Wellex) pray that the Court reverse and set aside all of the above issuances and affirm the Decision⁵ dated January 9, 2015 of Branch 145, Regional Trial Court (RTC), Makati City (RTC-Makati) in Civil Case Nos. 08-555 and 38-V-10.⁶

In G.R. No. 240513, on the other hand, Philippine Veterans Bank (PVB) prays that the Court set aside the Amended Decision dated February 28, 2018 and the Resolution dated July 2, 2018, and reinstate its Decision dated June 29, 2017.⁷

The Antecedents

On January 7, 2004, PVB granted a short-term loan accommodation in favor of MAHEC and Polymax in the amount of ₱550,000,000.00 under a Loan Agreement⁸ of even date. The loan was availed of in two tranches: ₱200,000,000.00 under Promissory Note No. (PN) 901-14-04-0002⁹ dated January 7, 2004 and ₱350,000,000.00

¹ *Rollo* (G.R. No. 240495), pp. 9-48; *rollo* (G.R. No. 240513), pp. 70-104.

² *Rollo* (G.R. No. 240495) pp. 52-77; *rollo* (G.R. No. 240513), pp. 17-42; penned by Associate Justice Ma. Luisa C. Quisano-Padilla with Associate Justices Sesinando E. Villon and Rodil V. Zalameda (now a member of the Court), concurring.

³ *Rollo* (G.R. No. 240495), pp. 78-93.

⁴ *Id.* at 94-97.

⁵ *Id.* at 227-238-A; penned by Presiding Judge Carlito B. Calpatura.

⁶ *Id.* at 38.

⁷ *Rollo* (G.R. No. 240513), p. 98.

⁸ *Rollo* (G.R. No. 240495), pp. 111-118.

⁹ *Id.* at 122.

under PN 901-14-04-00003¹⁰ dated January 7, 2004, both bearing the maturity date April 6, 2004. The loan agreement underwent several amendments to accommodate the extension of its maturity date.¹¹

As of July 25, 2008, MAHEC and Polymax's alleged total liability was ₱153,739,400.28.¹² At that time, the registered Real Estate Mortgage¹³ dated October 13, 2006 executed by Wellex in favor of PVB was among the remaining securities and collaterals for the loan obligation. The Real Estate Mortgage covered a parcel of land located in Brgy. Bagong Ilog, Pasig City (Pasig Property) which was covered by Transfer Certificate of Title No. (TCT) PT-101859.¹⁴

As of November 2, 2006, MAHEC and Polymax were only able to make partial payments and their alleged loan exposure was ₱98,278,949.05.¹⁵ For their remaining loan obligation, MAHEC and Polymax were made to sign PN 104006301839¹⁶ dated November 2, 2006 bearing the maturity date December 29, 2006.

Subsequently, PVB filed a Petition for Extra-Judicial Foreclosure¹⁷ of Real Estate Mortgage with the RTC of Pasig City. The case was docketed as Case No. F-5455.¹⁸

To restrain the foreclosure proceedings, MAHEC, Polymax, and Wellex filed with the RTC-Makati the following: 1) *Extremely, Urgent Ex-Parte* Omnibus Motion;¹⁹ and 2) Complaint²⁰ for Declaration of Nullity (of Promissory Notes, Increase of Interest Rates, Service Charge, Penalties and Attorney's Fees), Accounting and Damages, with prayer for Temporary Restraining Order (TRO) and/or Writ of Preliminary Injunction. Both were docketed as Civil Case No. 08-555.

¹⁰ *Id.* at 119.

¹¹ *Id.* at 53-54.

¹² *Id.* at 54.

¹³ *Id.* at 143-145.

¹⁴ *Id.* at 146-147.

¹⁵ *Id.* at 54.

¹⁶ *Id.* at 142.

¹⁷ *Id.* at 150-151.

¹⁸ *Id.* at 150.

¹⁹ *Id.* at 152-158.

²⁰ *Id.* at 159-188.

Finding merit in the prayer for injunctive relief, the RTC-Makati granted the application and issued the corresponding Writ of Preliminary Injunction²¹ on September 9, 2008 after approving the injunction bond in its Order²² dated September 8, 2008. However, upon PVB's motion for reconsideration,²³ the RTC-Makati lifted the Writ of Preliminary Injunction in its Order²⁴ dated October 5, 2009 on account of the failure of MAHEC, Polymax, and Wellex to comply with A.M. No. 99-10-05-0,²⁵ which requires payment to the mortgagee of at least 12% *per annum* interest on the principal obligation as a condition precedent for the issuance of the writ.²⁶

Thus, the foreclosure sale of the subject property ensued on November 24, 2009 and PVB was issued a Certificate of Sale²⁷ on December 3, 2009. Accordingly, TCT PT-101859 was cancelled and TCT 011-2010000057²⁸ was issued in the name of PVB.

After applying the proceeds of the foreclosure sale, the alleged remaining obligation was reduced to ₱68,873,694.97. Considering that the obligation was not fully satisfied, PVB went after the other collaterals, particularly the shares of stocks of MAHEC with Pacific Concorde Corporation, Mizpah Holdings, Inc., Chartered Commodities, Inc., Rexlon Realty Corporation, Inc., Chesa Holdings, Inc., Pacific Rehouse Corporation, Pacific Wide Realty & Development Corporation, Forum Holdings Corporation, Creston Global Limited and William T. Gatchalian (Pacific Concorde, *et al.*) covered by a chattel mortgage dated January 29, 2004. An auction sale was then scheduled on March 23, 2010.²⁹

Subsequently, Pacific Concorde, *et al.* filed with the RTC of Valenzuela City (RTC-Valenzuela) a Complaint³⁰ for Annulment of Notice of Sheriff's Sale and Damages with Prayer for the issuance of a

²¹ Records, Vol. I, pp. 395-396.

²² *Id.* at 394.

²³ *Id.* at 397-403.

²⁴ Records, Vol. II, pp. 673-674.

²⁵ Re: Procedure in the Extra-Judicial Foreclosure of Mortgages dated August 7, 2001.

²⁶ Records, Vol. II, pp. 673-674.

²⁷ *Id.* at 857, 861.

²⁸ Records, Vol. III, pp. 934-937.

²⁹ *Rollo* (G.R. No. 240495), pp. 55.

³⁰ Records, Vol. III, pp. 979-1001.

[TRO] and/or Writ of Preliminary Injunction which was docketed as Civil Case No. 38-V-10.³¹

The RTC-Valenzuela granted Pacific Concorde, *et al.*'s prayer for the issuance of a TRO for a period of 20 days to restrain PVB from proceeding with the auction sale.³² Meanwhile, PVB filed a Motion to Dismiss³³ on the ground of *litis pendentia* under Section 1, Rule 16 of the Rules of Court, invoking the pendency of the case before the RTC-Makati.

On February 10, 2011, the RTC-Valenzuela issued an Order³⁴ granting Pacific Concorde, *et al.*'s prayer for issuance of a writ of preliminary injunction.³⁵ On February 11, 2011, it issued another Order³⁶ denying the motion to dismiss and directing the consolidation of Civil Case No. 38-V-10 with Civil Case No. 08-555 pending before the RTC-Makati. PVB moved for the reconsideration of the two Orders but the RTC-Valenzuela denied the motion in its Order³⁷ dated July 4, 2011.

After the consolidation of the cases before the RTC-Makati, trial on the merits ensued.

With respect to Civil Case No. 08-555, MAHEC, Polymax, and Wellex filed a Motion for Leave to Admit Second Amended Complaint³⁸ with attached Second Amended Complaint,³⁹ both dated October 9, 2013, impleading Zen Sen Realty and Development Corporation (Zen Sen) as an additional defendant in view of PVB's sale of the Pasig Property to the latter.

Subsequently, Zen Sen filed a Motion to Dismiss (Re: Second Amended Complaint dated October 9, 2013).⁴⁰ MAHEC, Polymax, and

³¹ Records, Vol. III, p. 979.

³² See Amended Order dated March 23, 2010 of Branch 171, Regional Trial Court (RTC), Valenzuela City, records, Vol. IV(A), pp. 1138-1142.

³³ Records, Vol. III, pp. 1002-1014.

³⁴ Records, Vol. IV(A), pp. 1327-1332.

³⁵ *Id.* at 1330.

³⁶ *Id.* at 1333-1337.

³⁷ *Id.* at 1398-1399.

³⁸ *Rollo* (G.R. No. 240495), pp. 198-201.

³⁹ *Id.* at 202-211.

⁴⁰ Records, Vol. IV, pp. 270-286.

Wellex thereafter filed a Manifestation [re: Amendment to Second Amended Complaint]⁴¹ with attached Amendment to Second Amended Complaint,⁴² both dated November 13, 2014, dropping their claims against Zen Sen as a defendant.

The RTC-Makati Ruling

On January 9, 2015, the RTC-Makati rendered its Decision,⁴³ the dispositive portion of which reads:

WHEREFORE, preponderance of evidence having been established by [MAHEC, Polymax, and Wellex in Civil Case No. 08-555 and Pacific Concorde, *et al.* in Civil Case No. 38-V-10] in support of the causes of action, judgment is hereby rendered in their favor as follows:

A. In civil Case No. 08-555-

1. Declaring as null and void the stipulation in the loan agreement and various promissory notes issued thereunder which allowed PVB to unilaterally fix interest on [MAHEC and Polymax's] obligation, as well as the interest rates of 14.740 per cent per [sic] and 12.6316 per cent annum [sic] imposed by [PVB] against [MAHEC and Polymax] for its [sic] loan obligation, including the amount so collected thereunder, and confirming that [MAHEC and Polymax's] principal obligation of Php.550,000,000.00, had been fully paid as of November 2, 2006.
2. Declaring as null and void, and cancelled the following: the Promissory Note No. 104016301839 dated November 2, 2006, for Php.98,278,949.05(Exh. 15) and the corresponding Real Estate Mortgages and Chattel Mortgage executed to secure the said note, as well [sic] the foreclosure of the said real estate mortgage, the cancellation of TCT PT-101859 kept in the Register of Deeds for Pasig City, and the consolidation and issuance of new TCT.No.011-2010000057, in favor of [PVB].
3. Consequently, all collaterals or mortgages securing the same are ordered discharged and released, together with the corresponding titles, certificates and/or documents,

⁴¹ *Rollo* (G.R. No. 240495), pp. 214-215.

⁴² *Id.* at 216-226.

⁴³ *Rollo* (G.R. No. 240495), pp. 227-238-A; *rollo* (G.R. No. 240513), pp. 248-260.

and the same should be returned to [MAHEC, Polymax, and Wellex], namely:

(a) Real estate Mortgage dated October 13, 2006, executed by [Wellex] in favor of PVB covering a parcel of land located in Barangay Bagong Ilog, Pasig City, and covered by [TCT] PT-101859 (Exh.17);

(b) Real Estate Mortgage dated January 19, 2004, executed by Orient Pacific Corporation and Westland Pacific Corporation in favor of PVB covering various parcels of land in Cavite and Bulacan (Exh. 18); and (c) Surety Agreement notarized on January 9, 2004, executed by William T. Gatchalian, Dee Hua Gatchalian, and Elvira A. Ting, in favor of PVB (Exh. 20).

4. Ordering [PVB] to return to [MAHEC, Polymax, and Wellex] the overpayment made by them in the total amount of Php. Php. [sic] 3,252,150.00., which amount shall bear legal interest at six (6%) per cent per annum reckoned from finality of this judgment until fully paid.

B. In Civil Case No. 38-V-10-

1. Annulling the registered Chattel Mortgage dated January 29, 2004, executed by [Pacific Concorde, *et al.*], and Dee Hua Gatchalian, in favor of PVB covering shares of stock of [MAHEC] (Exh. 19) and ordering their return to [Pacific Concorde, *et al.*] as the obligation secured thereon had been paid;

2. Ordering that [sic] the preliminary injunction previously issued by RTC Valenzuela as hereby made permanent and consequently, the petition for extrajudicial foreclosure of chattel mortgage and notice of sheriff's sale dated January 20, 2010, covering the Certificates of Stocks herein mentioned above are hereby nullified and permanently enjoined;

All other claims of [MAHEC, Polymax, Wellex, and Pacific Concorde, *et al.*], as well as [PVB]'s counterclaims are denied for lack of merit.

Costs against [PVB].

SO ORDERED.⁴⁴

⁴⁴ *Rollo* (G.R. No. 240495), pp. 238-238-A; *rollo* (G.R. No. 240513), pp. 259-260.

The RTC-Makati ruled that the imposition of the 14% interest *per annum* during the initial stage as stated in the Loan Agreement is valid. Hence, it upheld the validity of the collection of the interest from January 7, 2004 to May 6, 2004.⁴⁵

However, with respect to the subsequent interests imposed at the rates of 14.74% *per annum* from May 6, 2004 to January 11, 2006 and 12.6316% from January 11, 2006 onwards, the RTC-Makati ruled that the imposition of these interests is null and void for having been fixed and adjusted by PVB without the consent of MAHEC and Polymax.⁴⁶

The RTC-Makati observed that the 14.74% *per annum* interest rate was not stipulated in the Loan Agreement, PNs, disclosure statement, or any other loan document. It rejected the defense of PVB that it merely grossed up the interests in order to cover payment of taxes as allegedly allowed in the Loan Agreement as well as in the respective PNs. Moreover, it held that the escalation clause stipulated in the Loan Agreement is not a license for PVB to unilaterally increase the interest rate.⁴⁷

Thus, the RTC-Makati declared illegal the interest rates unilaterally imposed by PVB. It held that pursuant to *Bangko Sentral ng Pilipinas* Circular No. 799, Series of 2013⁴⁸ (BSP Circular 799-13), implementing Monetary Board Resolution No. 796, the legal rate of interest to be applied is 6% *per annum*. It came up with the following recomputation of the loan obligation:

Coming to a re-computation of [MAHEC, Polymax, and Wellex]s' obligation based on the jurisprudential rule that if the stipulation on interest is held as illegal and void the legal rate shall apply, the legal rate of interest is now 6% per annum pursuant to Central Bank Circular [sic] 799, implementing Monetary Board Resolution No.796. Recomputing the [MAHEC, Polymax, and Wellex]s' obligation under this rate result in the following:

⁴⁵ *Rollo* (G.R. No. 240495), p. 230.

⁴⁶ *Id.* at 231

⁴⁷ *Id.* at 232.

⁴⁸ Approved on June 21, 2013. [In the absence of a contract expressly providing for a different rate, the rate of interest for the loan or forbearance of any money, goods or credits and the rate allowed in judgments has been reduced from 12% to 6% *per annum*.]

- a) From January 7, 2004 to April 6, 2004, principal obligation is Php.550,000,000.00. Interest earned at 14% per annum for the covered 90 day period was pre-deducted. Hence, there was no unpaid interest for the said period.
- b) From April 6, 2004 to May 6, 2004, the beginning balance of Php.550,000,000.00, had an interest earned, at 14% per annum, in the amount of Php.6,328,767. Per Exhibit 16, [MAHEC, Polymax, and Wellex] have paid Php.6,328,767, for interest only, so there was no unpaid interest also for the said period. However, the application of the amount of Php.546,860.73, as payment for Documentary Stamps and GRT are disallowed for lack of admissible proof of such expenditures. Hence, the said amount should be credited to the principal, thereby the new principal balance as of May 6, 2004, was at Php.549,453,139.27.
- c) From May 6, 2004 to January 11, 2006 (609 days, not 615 days as stated in Exh.16)), the principal balance of Php. 549,453,139.27, bore interest at 6% per annum in the amount of Php.55,005,527.96, during the covered 609 days period. Since, as per [PVB's] Summary of Loan Releases and Payments (Exhibit 16), [MAHEC, Polymax, and Wellex] have paid the principal an amount of Php.225,000,000.00 and interest in the amount of Php. 138,494,583.33, there was an overpayment of interest in the amount of Php.83,849,055.37. Crediting the said excess payment to the principal, in addition to what was paid, the principal balance as of January 11, 2006 was Php.240,604,083.90.
- d) From January 11, 2006 to March 13, 2006 (61 days), the beginning principal is balance of Php.240,604,083.90, bore interest, computed at 6% per annum, in the amount of Php.2,412,632.73. Per Exhibit 16, [MAHEC, Polymax, and Wellex] have paid Php. 3,421,058.33, for interest, there was an overpayment of Php. 1,008,425.59. Crediting this amount to the principal, the principal balance as of March 13, 2006, was Php.239,595,658.31. The deduction for payment of Documentary Stamps is disallowed for lack of valid proof.
- e) From March 13, 2006 to April 12, 2006 (30 days), the beginning principal balance of Php239,595,658.31, bore interest, at 6% per annum, in the amount of Php1,181,567.63. Per Exhibit 16, [MAHEC, Polymax, and Wellex] have paid Php47,693,941.67, for the principal and Php3,421,058.33 for the interest, there was overpayment of interest in the amount of Php2,239,490.70. Crediting this amount to the principal balance, in addition to the payments applied for the principal obligation, the balance as of April 12, 2006, was Php189,662,225.94.
- f) From April 12, 2006 to September 18, 2006 (159 days), the beginning principal balance is Php. 189,662,225.94, bore interest, at 6% per annum in the amount of Php.4,957,199.00. Per Exhibit 16, [MAHEC, Polymax, and Wellex] have paid the Php.33,361,608.77, for the principal and Php. 15,470,784.83 for

the interest, there was an overpayment of interest in the amount of Php10,513,585.83. Crediting this amount to the principal, in addition to the payments intended for the principal, the principal balance as of September 18, 2006, was Php.145,787,031.34.

- g) From September 18, 2006 to November 2, 2006 (45 days), the beginning principal balance of Php.145,787,031.34, bore interest at 6% per annum, in the amount of Php1,078,424.61. Per Exhibit 16, [MAHEC, Polymax, and Wellex] have paid Php145,665,500.51 for the principal and Php.3,851,760.89 for the interest, there was an overpayment of the interest in the amount of Php.2,773,336.28. Crediting this amount to the principal balance, in addition, the amount of Php.523,606.00, paid for by [MAHEC, Polymax, and Wellex] which applied to defray the alleged registration fees, as well as the amount of Php.76,739.00 paid for alleged documentary stamps, which are both disallowed for lack of proof of such expenditures. The said amount should likewise be credited as payment for the principal obligation. Hence, adding the excess interest payment, and those payments applied for Registration Fees and Documentary Stamps, to the payment intended for the principal obligation, there was a total overpayment on the principal balance as of November 2, 2006, in the amount of Php.3,252,150.00.⁴⁹

Aggrieved, PVB filed a Motion for Reconsideration⁵⁰ but the RTC-Makati denied it in its Order⁵¹ dated April 17, 2015. Thus, PVB appealed to the CA, arguing that the RTC-Makati erred: (a) in ruling that PVB's imposition of the interest rate of 14.74% *per annum* for the period from May 6, 2004 up to January 11, 2006 is void; (b) in ruling that the loan obligation of MAHEC and Polymax had already been extinguished; (c) in declaring as null and void the corresponding real estate mortgages and chattel mortgage as well as the foreclosure of the collaterals and security for the loan; (d) in ordering PVB to return to MAHEC, Polymax, and Wellex the total amount of ₱3,252,150.00 purportedly representing their "overpayment" to PVB; and (e) in preventing PVB from presenting further evidence to prove that MAHEC and Polymax had acknowledged their outstanding indebtedness in the amount of ₱98,278,949.05.⁵²

⁴⁹ *Rollo* (G.R. No. 240495), pp. 235-236.

⁵⁰ *Id.* at 239-253.

⁵¹ *Id.* at 256-258.

⁵² *Id.* at 59.

The CA Ruling

In the assailed Decision⁵³ dated June 29, 2017, the CA partly granted PVB's appeal and affirmed with modifications the RTC-Makati Decision dated January 9, 2015. The dispositive portion of the CA Decision reads:

WHEREFORE, the appeal filed by [PVB] is PARTLY GRANTED.

The *Decision* dated January 9, 2015 and *Order* dated April 17, 2015 of the Regional Trial Court (RTC), Branch 145, Makati City in *Civil Case No. 08-555* and *Civil Case No. 38-V-10* are AFFIRMED but MODIFIED as follows:

- 1) Declaring as null and void the stipulation in the loan agreement and various promissory notes issued thereunder which allowed [PVB] to unilaterally fix the interest rate on [MAHEC and Polymax]'s obligation, as well as the interest rates of 14.740% and 12.6316% per annum imposed by PVB upon the loan obligation, including the amounts so collected thereunder, and applying instead the legal interest rate of 12% per annum as computed above;
- 2) Declaring that [MAHEC and Polymax] remain liable to pay PVB [in] the amount of P69,767,776.37 as of November 2, 2006, thus, declaring the Promissory Note executed on even date valid, only up to the extent of said amount and upholding as well the validity of the the [sic] subsequent foreclosure proceedings held on November 24, 2009 based on the remaining obligation of P98,821,053.62, as determined by this Court;
- 3) Ordering that the P71,325,900.00 proceeds of the November 24, 2009 foreclosure sale be applied as payment for [MAHEC and Polymax]'s remaining obligation of P98,821,053.62, thereby leaving a balance of only P27,495,153.62, as of November 24, 2009;
- 4) Allowing [PVB] to proceed with the foreclosure of the chattel mortgage on the shares of stocks owned by [Pacific Concorde, *et al.*] described in paragraph 20 of the Complaint docketed as *Civil Case No. 38-V-10*,

⁵³ *Id.* at 52-77.

and as listed in the Petition for Extrajudicial Foreclosure of Chattel Mortgage filed with the Office of the Clerk of Court of the Makati RTC. However, this Court ORDERS that the conduct of the foreclosure proceedings shall be limited to the amount of P27,495,153.62 as of November 24, 2009 as determined by this Court, and on such amount as may be arrived at, at the time of the actual foreclosure sale, using the legal interest rate of 12% per annum until June 30, 2013 and 6% per annum from July 1, 2013 onwards, pursuant to Central Bank Circular No. 799.

All other claims by the parties are hereby denied. No costs.

SO ORDERED.⁵⁴

The CA ruled that the RTC-Makati was correct that the legal interest rate should apply because the increased interest rates imposed were unilaterally determined by PVB. However, it held that the rate should be computed at 12% *per annum*, instead of 6%, considering that BSP Circular 799-13 only took effect on July 1, 2013, and the new legal interest rate of 6% may only be applied prospectively.⁵⁵

Moreover, the CA agreed with the RTC-Makati in ruling that the supposed application of payment for taxes and documentary stamps must be disallowed for lack of evidence and lack of legal basis. In view of the absence of documentary evidence to prove the alleged payment of these taxes, the CA affirmed the RTC-Makati in holding that these may not be considered in the computation of the remaining balance of the loan obligation.⁵⁶

Thus, the CA came up with the following computation of the loan obligation of MAHECO and Polymax:

a) From January 7, 2004 to April 6, 2004 (90 days):

Principal: P550,000,000.00

Interest: P6,416,666.67 (14% per annum, pre-deducted)

Payment: None

⁵⁴ *Id.* at 75-76.

⁵⁵ *Id.* at 68.

⁵⁶ *Id.* at 69.

Balance: **P550,000,000.00**

b) From April 6, 2004 to May 6, 2004

Principal: P550,000,000.00

Interest: P6,416,666.67 (14% per annum)

Payment: P6,963,527.40 (less interest due; remainder applied to principal)

Balance: P550,000,000.00 – P546,860.73 = **P549,453,139.27**

c) From May 6, 2004 to January 11, 2006 (615 days):

Principal: P549,453,139.27

Interest: P111,697,049.71 (12% per annum)

Payment: P225,000,000.00 (principal) and P138,494,583.33 (interest)

Balance: **P297,655,605.65.**

d) From January 11, 2006 to March 13, 2006 (62 days):

Principal: P297,655,605.65

Interest: P6,148,830.86 (12% per annum)

Payment: P3,559,073.33

Balance: **P300,245,363.18**

e) From March 13, 2006 to April 12, 2006 (30 days):

Principal: P300,245,363.18

Interest: P3,002,453.63 (12% per annum)

Payment: P47,693,941.67 (principal) and P3,421,058.83 (interest)

Balance: **P252,132,816.31**

f) From April 12, 2006 to September 18, 2006 (159 days):

Principal: P252,132,816.31

Interest: P13,352,677.65 (12% per annum)

Payment: P50,000,000.00

Balance: **P215,485,493.96**

g) From September 18, 2006 to November 2, 2006 (45 days):

Principal: P215,485,493.90

Interest: P3,232,282.41 (12% per annum)

Payment: P148,950,000.00

Balance: **P69,767,776.37-remaining obligation as of November 2, 2006⁵⁷**

⁵⁷ *Id.* at 70-71.

Having found an unpaid balance of ₱69,767,776.37, the CA upheld the foreclosure proceedings undertaken by PVB to settle the remaining obligation of MAHEC and Polymax. Based on the CA's computation, the outstanding loan obligation at the time of the foreclosure sale was ₱98,821,053.62, which was arrived at after applying the interest rate of 12% *per annum* for the interim period from November 2, 2006 to November 24, 2009. The CA held that the ₱71,325,900.00 proceeds of the foreclosure sale should be applied to the outstanding loan obligation of ₱98,821,053.62, thereby leaving a balance of ₱27,495,153.62.⁵⁸

Lastly, on account of the remaining balance of ₱27,495,153.62 after the foreclosure sale conducted on November 24, 2009, the CA ruled that PVB may still validly proceed with the foreclosure of the chattel mortgage on the shares of stock owned by Pacific Concorde, *et al.*, as described in paragraph 20 of the Complaint⁵⁹ originally filed with the RTC-Valenzuela and as listed in the Petition for Extra-judicial Foreclosure⁶⁰ of Real Estate Mortgage filed by PVB with the Office of the Clerk of Court of RTC-Makati. However, the CA directed that the conduct of the foreclosure proceedings shall be based not on the ₱68,873,694.97 as stated in the application for foreclosure of the chattel mortgage but only on the amount of ₱27,495,153.62 as of November 24, 2009 and such amount as may be reached at the time of the foreclosure sale, using the legal interest rate of 12% *per annum* until June 30, 2013 and 6% *per annum* from July 1, 2013 onwards, pursuant to BSP Circular 799-13.⁶¹

On August 1, 2017, MAHEC, Polymax, and Wellex filed their Appellees' Motion for Reconsideration⁶² dated July 31, 2017. PVB subsequently filed its Comment/Opposition (to Appellees' Motion for Reconsideration)⁶³ dated August 31, 2017.

⁵⁸ *Id.* at 74.

⁵⁹ Records, Vol. III, pp. 979-1001.

⁶⁰ *Rollo* (G.R. No. 240495), pp. 150-151.

⁶¹ *Id.* at 74-75.

⁶² *Id.* at 98-110.

⁶³ *Rollo* (G.R. No. 240513) pp. 323-330.

On February 28, 2018, the CA rendered the assailed Amended Decision,⁶⁴ affirming its earlier Decision with modifications to read as follows:

WHEREFORE, the appeal filed by defendant-appellant [PVB] is PARTLY GRANTED.

The Decision dated January 9, 2015 and Order dated April 17, 2015 of the Regional Trial Court (RTC), Branch 145, Makati City in *Civil Case No. 08-555* and *Civil Case No. 38-V-10* are AFFIRMED but MODIFIED as follows:

- 1) Declaring as null and void the stipulation in the loan agreement and various promissory notes issued thereunder which allowed [PVB] to unilaterally fix the interest rate on [MAHEC and Polymax]'s obligation, as well as the interest rates of 14.740% and 12.6316% per annum imposed by PVB upon the loan obligation, including the amounts so collected thereunder, and applying instead the legal interest rate of 12% per annum from the date of default until fully paid or until June 30, 2013. After which, the outstanding obligation of [MAHEC and Polymax], if any, shall earn interest at 6% per annum from July 1, 2013 onwards, pursuant to Central Bank Circular No. 799.
- 2) Declaring that [sic] the November 2, 2006 Promissory Note and subsequent foreclosure proceedings of the real estate mortgage held on November 24, 2009 invalid.
- 3) Ordering [PVB] to desist from foreclosing the chattel mortgage on the shares of stocks owned by [Pacific Concorde, *et al.*] described in paragraph 20 of the Complaint docketed as *Civil Case No. 38-V-10*, and as listed in the Petition for Extrajudicial Foreclosure of Chattel Mortgage filed with the Office of the Clerk of Court of the Makati RTC.
- 4) In the meantime, this Court ORDERS that this case be REMANDED to the RTC for the purpose of computing the amount of the outstanding liability of [MAHEC and Polymax] in accordance with the pronouncement of this Court and with

⁶⁴ *Rollo* (G.R. No. 240495), pp. 78-93.

due regard to the payments previously made by [MAHEC and Polymax].

All other claims by the parties are hereby denied. No costs.

SO ORDERED.⁶⁵ (Underscoring omitted.)

In deciding to amend its earlier ruling, the CA found merit in the contention of MAHEC, Polymax, and Wellex that the foreclosure proceedings were premature. Citing *Sps. Andal v. PNB*⁶⁶ (*Sps. Andal*), it held that no valid foreclosure could proceed due to the nullity of the unilateral interests imposed by PVB.⁶⁷ Hence, it invalidated the foreclosure proceedings of the real estate mortgage held on November 24, 2009. It also ordered PVB to desist from foreclosing the chattel mortgage on the shares of stock owned by Pacific Concorde, *et al.*

Aggrieved, PVB filed a Motion for Reconsideration⁶⁸ dated March 26, 2018. However, the CA denied it in the assailed Resolution⁶⁹ dated July 2, 2018 after finding no valid reason to disturb its Amended Decision.

Hence, the present petitions.

In G.R. No. 240495, MAHEC, Polymax, and Wellex raise the following arguments:

I. PVB'S APPEAL SHOULD HAVE BEEN DISMISSED OUTRIGHT FOR ITS FAILURE TO STATE THE MATERIAL DATES SHOWING THE TIMELINESS OF THE FILING OF ITS NOTICE OF APPEAL;

II. IN *MOTU PROPRIO* RULING THAT THE RTC MAKATI SHOULD HAVE APPLIED THE LEGAL INTEREST RATE OF 12%, INSTEAD OF 6%, IN DETERMINING PETITIONERS' OUTSTANDING LOAN OBLIGATION, THE COURT OF APPEALS VIOLATED THE WELL-SETTLED RULE THAT IT CANNOT RESOLVE MATTERS NOT RAISED BY PVB IN ITS APPEAL; AND

⁶⁵ *Id.* at 91-92.

⁶⁶ 722 Phil. 273 (2013).

⁶⁷ *Rollo* (G.R. No. 240495), p. 85.

⁶⁸ *Id.* at 337-350.

⁶⁹ *Id.* at 94-97.

III. THE COURT OF APPEALS DISREGARDED THE WELL-SETTLED JURISPRUDENCE THAT THE TRIAL COURT HAS THE DISCRETION TO EQUITABLY REDUCE INTEREST RATES, AS REASON AND EQUITY DEMAND, WHEN THE "STIPULATED INTEREST RATES" ARE NULL AND VOID.⁷⁰

On the other hand, PVB's petition in G.R. No. 240513 is grounded upon the following:

THE COURT OF APPEALS GRAVELY ERRED IN DECLARING THE FORECLOSURE PROCEEDINGS PREMATURE AND VOID, CONSIDERING THAT:

A. IT HAD AFFIRMED [PVB]'S ENTITLEMENT TO LEGAL INTEREST;

B. ITS VERY OWN COMPUTATION CLEARLY SHOWED THAT [MAHEC, POLYMAX, AND WELLEX] STILL HAVE AN OUTSTANDING OBLIGATION IN [PVB]'S FAVOR; and

C. ITS RELIANCE UPON THE FACTUAL MILEU [*sic*] AND DOCTRINE IN THE CASE OF [SPS. ANDAL] vs. PHILIPPINE NATIONAL BANK IS GROSSLY MISPLACED[.]⁷¹

The Issues

To synthesize, the issues to be resolved based on the grounds raised in the two petitions are as follows:

- (1) Whether PVB's alleged failure to state the material dates showing the timeliness of the filing of its notice of appeal warranted the outright dismissal of its appeal before the CA;
- (2) Whether the CA erred in affirming the RTC-Makati Decision with modification in that the legal interest rate of 12% *per annum*, instead of 6% *per annum*, shall be applied in determining MAHEC, Polymax, and Wellex's outstanding obligation; and

⁷⁰ *Id.*, at 23.

⁷¹ *Rollo* (G.R. No. 240513), p. 85.

(3) Whether the CA erred in declaring the foreclosure proceedings premature and void in view of the nullity of the interest rates imposed by PVB on the loan obligation of MAHEC, Polymax, and Wellex.

The Court's Ruling

Both petitions lack merit.

The Court affirms the CA Amended Decision insofar as it nullified not only the unilateral interest rates imposed by PVB but also the foreclosure proceedings that resulted in the cancellation of TCT No. PT-101859 and the issuance of TCT No. 011-2010000057 in the name of PVB.

Considering the nullity of the foreclosure proceedings, the Court also affirms the reconstitution of TCT No. PT-101859 covering the Pasig Property mortgaged by Wellex to PVB and prematurely foreclosed on November 24, 2009.

The Court finds it unnecessary to remand the case to the RTC for the proper computation of the remaining loan obligation of MAHEC and Polymax. Instead, the final computation of the outstanding liability of MAHEC and Polymax shall be set forth in this Decision.

On account of the nullified foreclosure proceedings, the Court orders PVB to pay reasonable rent to Wellex, the mortgagor, to be reckoned from the time Wellex was unjustly dispossessed of the foreclosed property until actual possession thereof is restored to it.

I. The CA correctly ruled that PVB's appeal was timely filed.

MAHEC, Polymax, and Wellex allege that PVB in its Notice of Appeal stated that it received on April 28, 2015 the RTC-Makati Order dated April 17, 2015 but failed to indicate the following dates: (1) its receipt of the RTC-Makati Decision dated January 9, 2015; and (2) its filing of its Motion for Reconsideration of the RTC-Makati Order dated

April 13, 2015. They argue that this failure on the part of PVB is fatal and amounts to the nonperfection of its appeal. Hence, they maintain that the CA acted without jurisdiction in taking cognizance of PVB's appeal, much less in issuing the Decision dated June 29, 2017 and Amended Decision dated February 28, 2018 reversing the RTC-Makati Decision dated January 9, 2015.

The above argument has no merit.

In *Acaylar, Jr. v. Harayo*,⁷² the Court held that the failure to comply with the rule on the statement of material dates in the petition may be excused when the dates are evident from the records.⁷³ For purposes of appeal to the CA, the more material date is the date of receipt of the trial court's order denying the motion for reconsideration; the other material dates may be gleaned from the records of the case if reasonably evident.⁷⁴

The issue was aptly and sufficiently resolved by the CA in its Amended Decision dated February 28, 2018. Thus, the Court quotes with affirmation the following ratiocination of the CA:

Under Section 5, Rule 41 of the Rules of Court, a notice of appeal is only required to indicate: (a) the parties to the appeal; (b) the final judgment or order or part thereof appealed from; (c) the court to which the appeal is being taken; and (d) the material dates showing the timeliness of the appeal. In accordance with Section 3 of the said Rule, an ordinary appeal of a judgment by a regional trial court shall be taken within fifteen (15) days from notice of the judgment or final order appealed from. A fresh period of fifteen (15) days from notice within which to file the notice of appeal counted from receipt of the order dismissing a motion for a new trial or motion for reconsideration is, however, allowed. The more material date for purposes of appeal to the Court of Appeals is the date of receipt of the trial court's order denying the motion for reconsideration.

In the case at bar, [PVB]'s failure to indicate in its *Notice of Appeal* the dates it received the appealed *Decision* and filed its motion for reconsideration thereto is not fatal given that the more material date, *i.e.*, the date of its receipt of the assailed *Order* dated April 17, 2015 denying its motion for reconsideration of the appealed *Decision*, was clearly indicated. The said notice, which appears to have been

⁷² 582 Phil. 600 (2008).

⁷³ *Id.* at 612, citing *Great Southern Maritime Services Corp. v. Acuña*, 492 Phil. 518, 527 (2005).

⁷⁴ *Id.*, citing *Security Bank Corporation v. Indiana Aerospace University*, 500 Phil. 51, 60 (2005).

filed on May 8, 2015, was filed well within the 15-day reglementary period for its filing counted from [PVB]'s receipt of the assailed Order on April 28, 2015. Hence, the appeal timely was filed.

At any rate, the timely filing of the notice of appeal was already resolved by the trial court when it declared that “[t]he Notice of Appeal having been timely filed x x x.”⁷⁵

II. The CA did not err in affirming the RTC-Makati Decision and applying the legal interest rate of 12% per annum as conventional interest⁷⁶ for the purpose of determining MAHEC and Polymax's outstanding loan obligation.

MAHEC, Polymax, and Wellex aver that the application of 6% *per annum* interest rate by the RTC-Makati was not raised as an error by PVB in their appeal before the CA. Hence, they argue that the CA exceeded its jurisdiction when it ruled that the interest rate of 12% *per annum* should apply.

The argument is specious.

At the outset, the Court notes that the nullification by the RTC-Makati of the interests unilaterally imposed by FVB subsequent to the initial stages of the loan agreement—*i.e., at the rates of 14.74% per annum for the period starting May 6, 2004 until January 11, 2006 and 12.6316% per annum for the period from January 11, 2006 onwards*—is no longer an issue in the present petitions as none of the parties is questioning it. As correctly held by the RTC-Makati, these interest rates are invalid for having been unilaterally fixed by PVB.

The interest rates imposed by PVB subsequent to the initial stages of the loan agreement is not only one-sided and unilateral but also violative of one of the fundamental characteristics of contracts, that is, *the essential equality of the contracting parties*, oftentimes called *the*

⁷⁵ *Rollo* (G.R. No. 240495), p. 81.

⁷⁶ In *Sps. Abella v. Sps. Abella*, 763 Phil. 372, 386 (2015), conventional interest was defined as the cost of borrowing money.

*principle of mutuality of contracts.*⁷⁷ “In order that obligations arising from contracts may have the force of law between the parties, there must be mutuality between the parties based on their essential equality.”⁷⁸ This principle of mutuality of contracts is pronounced in Article 1308 of the Civil Code which states that a contract “must bind both contracting parties; its validity or compliance cannot be left to the will of one of them.” Under the principle of mutuality of contracts, a contract must be rendered void when the execution of its terms is skewed in favor of one party.⁷⁹

Even if the Loan Agreement between PVB, as creditor, and MAHEC and Polymax, as debtors, gave PVB the license to fix and adjust the interest rate at will during the term of the loan,⁸⁰ that license would be null and void for being violative of the principle of mutuality essential in contracts. It would invest the Loan Agreement with the character of a contract of adhesion, where the parties do not bargain on equal footing, the weaker party’s (the debtor) participation being reduced to the alternative “to take it or leave it.”⁸¹ The contract being a veritable trap for the weaker party, the courts of justice must protect such party against the abuse and imposition.⁸²

Nevertheless, while the interest rates unilaterally imposed by PVB are declared null and void, MAHEC, Polymax, and Wellex still remain liable to pay interest on the loan obligation based on the prevailing legal interest rates. In cases where the interest rate imposed by the bank is struck down because the bank was allowed under the loan agreement to unilaterally determine and increase the imposable interest rate, “*only the interest rate imposed is nullified; hence, it is deemed not written in the contract. The agreement on payment of interest on the principal loan obligation remains.*”⁸³

⁷⁷ See *Vasquez v. Philippine National Bank*, G.R. Nos. 228355 & 228397, August 28, 2019, citing Desiderio P. Jurado, COMMENTS AND JURISPRUDENCE ON OBLIGATIONS AND CONTRACTS, 9th ed., 1987, pp. 351-352.

⁷⁸ *Spouses Silos v. Philippine National Bank*, 738 Phil. 156, 186 (2014).

⁷⁹ *Sps. Limso v. Philippine National Bank, et al.*, 779 Phil. 287, 370 (2016), citing *Allied Banking Corporation v. Court of Appeals*, 348 Phil. 382, 390 (1998).

⁸⁰ Section 1.06, Article I of the Loan Agreement states in part: “The BANK reserves the right to review the interest rate and other charges herein provided every thirty (30) to sixty (60) days from and after the date of drawing or availment and by written notice to the CLIENT, but without need of the CLIENT’s further consent, and effective for the relevant interest period, to increase or decrease such interest charges or change the reference lending rate basis thereof x x x.”

⁸¹ *Spouses Silos v. Philippine National Bank*, *supra* note 78 at 182, citing *Philippine National Bank v. Court of Appeals, et al.*, 196 SCRA 536, 544-545 (1991).

⁸² *Id.*

⁸³ *Sps. Limso v. Philippine National Bank, et al.*, *supra* note 79 at 379.

In the case, the RTC-Makati, after nullifying the unilaterally imposed interest rates, aptly ruled that the prevailing legal interest rate should apply instead because the result is as if the parties failed to specify the interest rate to be imposed on the principal amount. Jurisprudence declares that the legal rate of interest is the presumptive reasonable compensation for borrowed money.⁸⁴

The ruling in the fairly recent case of *Vasquez v. Philippine National Bank*⁸⁵ (*Vasquez*) is instructive:

The Court has held that in a situation wherein the interest rate scheme imposed by the bank was struck down because the bank was allowed under the loan agreement to unilaterally determine and increase the imposable interest rate, thus being null and void, “only the interest rate imposed is nullified; hence, it is deemed not written in the contract. The agreement on payment of interest on the principal loan obligation remains.” x x x

x x x x

Jurisprudence has held that in a similar situation wherein an interest rate on a loan has been declared null and void due to the violation of the mutuality of contracts, the Court shall apply the applicable legal rate of interest, which refers to “the prevailing rate at the time when the agreement was entered into.” In the instant case, the legal rate of interest prevailing at the time of the entering of the Credit Agreement is 12%. Hence, the CA did not err in imposing monetary interest of 12% on the outstanding principal loan obligation. Although, in accordance with *Nacar v. Gallery Frames*, the monetary interest rate of 12% per *annum* should be applied from the time the agreement was entered into until June 30, 2013[,] [s]tarting July 1, 2013 until the finality of this Decision, the monetary interest rate that shall be applied to the principal loan obligation is 6% per *annum*.

It is evident that the CA did not overstep the bounds of its jurisdiction as it, in fact, affirmed the RTC-Makati in declaring null and void the interest rates unilaterally imposed by PVB and in ruling that the prevailing legal interest rate shall apply instead. However, it was incumbent upon the CA to conform to prevailing jurisprudence with respect to the monetary interest rates to be applied. Pursuant to *Nacar v.*

⁸⁴ *Isla, et al. v. Estorga*, 834 Phil. 884, 891 (2018), citing *Sps. Abella v. Sps. Abella*, *supra* note 76 at 386.

⁸⁵ *Vasquez v. Philippine National Bank*, *supra* note 77.

*Gallery Frames, et al.*⁸⁶ (*Nacar*) and BSP Circular 799-13, the CA appropriately applied, as conventional interest, the interest rate of 12% *per annum*, which was the rate that prevailed until June 30, 2013.

A. Computation of interest.

Before proceeding to the recomputation of the loan obligation of MAHEC and Polymax, the Court finds it appropriate to discuss the two types of interest that typically arise as incidents to a loan: *monetary or conventional interest* and *compensatory interest*.

Monetary or conventional interest refers to the cost of borrowing money.⁸⁷ The payment of monetary interest is a financial consequence imposed upon a debtor who remains to be in possession of the principal amount. Consequently, monetary interest shall be computed on the *principal loan amount* from the time of *availment* and understood to accrue continuously *for as long as the principal obligation remains unpaid*.⁸⁸

As a general rule, the rate of monetary interest shall be that *expressly stipulated in writing* by the parties.⁸⁹ However, in the event the parties' stipulated interest is adjudged to be null and void, the *legal rate of interest prevailing at the time the agreement* was entered into shall take the place of the voided interest.⁹⁰ "This rate, which by their contract the parties have settled on, is deemed to persist regardless of shifts in the legal rate of interest. Stated otherwise, the legal rate of interest, when applied as conventional interest, shall always be the legal rate at the time the agreement was executed and shall not be susceptible to shifts in rate."⁹¹

On the other hand, *compensatory interest* refers to an award of interest intended as a penalty or indemnity for damages arising from the debtor's breach of his loan obligation.⁹² It is commonly regarded as

⁸⁶ 716 Phil. 267 (2013).

⁸⁷ *Sps. Abella v. Sps. Abella*, *supra* note 76 at 386

⁸⁸ See *Frias v. San Diego-Sison*, 549 Phil. 49, 60 (2007).

⁸⁹ Article 1956, Civil Code of the Philippines provides:

ARTICLE 1956. No interest shall be due unless it has been expressly stipulated in writing.

⁹⁰ See *Vasquez v. Philippine National Bank*, *supra* note 77.

⁹¹ *Sps. Abella v. Sps. Abella* *supra* note 76 at 386.

“interest on interest” pursuant to Article 2212 in relation to Article 1959 of the Civil Code.

In *general*, compensatory interest shall accrue based on any *monetary interest due* from the date of *judicial demand*, notwithstanding the absence of an express stipulation to that effect.⁹³ The rate shall be equal to the legal rate of interest prevailing during the period in which the *monetary interest* has remained outstanding. Unlike in the case of a nullified monetary interest rate, the compensatory interest rate shall be adjusted to reflect any change in the prevailing legal interest rate.

By *exception*, compensatory interest shall not accrue where the imposition thereof would be inequitable, as was the case in *Vasquez*. The Court explained that a debtor cannot be regarded as in default “for their inability to pay the arbitrary, illegal and unconscionable interest rates and penalty charges unilaterally imposed by [respondent] bank.”⁹⁴

B. The promissory notes imposing the null and void interest rates of 14.74% per annum and 12.6316% per annum shall be subject to the monetary interest rate of 12% per annum, which was the prevailing legal interest rate until June 30, 2013.

Courts have the authority to strike down or to modify provisions in PNs which grant the lenders unrestrained power to increase interest rates, penalties, and other charges at their sole discretion and without giving prior notice to and securing the consent of the borrowers.⁹⁵ This unilateral authority given to the lenders is anathema to the mutuality of contracts and enable them to take undue advantage of borrowers.⁹⁶

⁹² See *Philippine Commercial and International Bank v. William Golangco Construction Corp.*, G.R. Nos. 195372 & 195375, April 10, 2019.

⁹³ Article 2212, Civil Code of the Philippines provides:

ARTICLE 2212. Interest due shall earn legal interest from the time it is judicially demanded, although the obligation may be silent upon this point. (1109a)

⁹⁴ *Vasquez v. Philippine National Bank*, *supra* note 77, citing *Sps Andal v. PNB*, *supra* note 66.

⁹⁵ *Sampaguita Builders Construction v. Philippine National Bank*, 479 Phil. 483, 486 (2004).

⁹⁶ *Id.*

Based on the Summary of Loan Releases and Payments as of July 25, 2008⁹⁷ (Summary of Loan Releases and Payments), the outstanding loan obligation is recomputed, as follows:

a) From January 7, 2004 to April 6, 2004:

Principal:	₱550,000,000.00
PN Number:	PN 901-14-04-00002 and PN 901-14-04-00003
Number of days:	90 days
Interest: ⁹⁸	14% per <i>annum</i> (as stipulated by the parties in the Loan Agreement): ₱19,250,000.00
Payment:	₱19,250,000.00 (applied to interest only; pre-deducted)
Balance:	₱550,000,000.00

b) From April 6, 2004 to May 6, 2004:

Principal:	₱550,000,000.00
PN Number:	PN 901-14-04-00222
Number of days:	30 days
Interest: ⁹⁹	14% per <i>annum</i> (as stipulated by the parties in the Loan Agreement): ₱6,416,666.67
Payment:	₱6,963,527.40 (applied to interest; remainder: applied to principal)
Balance:	₱549,453,139.27

As earlier stated, the imposition of 14% per *annum* interest for the two periods above is valid as the rate was mutually agreed upon by the parties to the Loan Agreement.

With respect to the period from April 6, 2004 to May 6, 2004, however, the Court affirms the CA and the RTC in ruling that the

⁹⁷ Records, Vol. 1, pp. 245-247.

⁹⁸ Section 1.06, Article 1 of the Loan Agreement partly states that “[i]nterest rate shall be at 14% per annum to be paid in advance using [PVB]’s discount formula.”

⁹⁹ *Id.*

application of the amount of ₱546,860.73, as payment for documentary stamps and gross receipts taxes is not proper for lack of admissible proof of such expenditures. Hence, this amount should not be deducted from the payment of ₱6,963,527.40 under OR#642066.¹⁰⁰

c) From May 6, 2004 to January 11, 2006:

Principal:	₱549,453,139.27
PN Number:	PN 901-03-04-00229
Number of days:	615 days
Interest: ¹⁰¹	12% per <i>annum</i> (instead of the nullified 14.74% per <i>annum</i>): ₱111,094,908.71
Payment:	₱363,494,583.33 (applied to interest; remainder: applied to principal)
Balance:	₱297,053,464.65

d) From January 11, 2006 to March 13, 2006:

Principal:	₱297,053,464.65
PN Number:	PN 104016300634 and PN 104016300633
Number of days:	61 days
Interest: ¹⁰²	12% per <i>annum</i> (instead of the nullified 12.6316% per <i>annum</i>): ₱5,957,346.20
Payment:	₱6,956,151.94 (applied to interest; remainder: applied to principal)
Balance:	₱296,054,658.91

¹⁰⁰ See Summary of Loan Releases and Payments as of July 25, 2008 Records, Vol. I, p. 245.

¹⁰¹ The computation of interest is expressed in the following formula.

a. **Interest Due on Principal Amount**

principal amount x stipulated interest x number of days

365 days

= interest due on principal amount

¹⁰² *Id.*

e) From March 13, 2006 to April 12, 2006:

Principal:	₱296,054,658.91
PN Number:	PN 104016300858 and PN 104016300857
Number of days:	30 days
Interest: ¹⁰³	12% per <i>annum</i> (instead of the nullified 12.6316% per <i>annum</i>): ₱2,919,991.16
Payment:	₱51,115,000.00 (applied to interest; remainder: applied to principal)
Balance:	₱247,859,650.07

f) From April 12, 2006 to September 18, 2006:

Principal:	₱247,859,650.07
PN Number:	None, but payment was made on September 18, 2006
Number of days:	159 days
Interest: ¹⁰⁴	12% per <i>annum</i> : ₱12,956,608.56
Payment:	₱50,000,000.00 (applied to interest; remainder: applied to principal)
Balance:	₱210,816,258.63

g) From September 18, 2006 to November 2, 2006:

Principal:	₱210,816,258.63
PN Number:	None, but payment was made on November 2, 2006
Number of days:	45 days
Interest: ¹⁰⁵	12% per <i>annum</i> : ₱3,118,925.47
Payment:	₱148,950,000.00 (applied to interest; remainder: applied to principal)
Balance:	₱64,985,184.10

¹⁰³ *Id.*

¹⁰⁴ *Id.*

¹⁰⁵ *Id.*

For the period from September 18, 2006 to November 2, 2006, PVB alleges that it paid registration fees and documentary stamps for ₱523,606.00 and ₱78,739.00, respectively. However, the Court agrees with the CA and the RTC-Makati's finding that no portion of MAHEC and Polymax's total payments may be applied to these items due to PVB's failure to present admissible proof that it incurred these expenses.

Thus, MAHEC and Polymax's loan exposure as of November 2, 2006 was ₱64,985,184.10, not ₱98,278,949.05 as stated in the Summary of Loan Releases and Payments.¹⁰⁶

In sum, as of November 2, 2006, MAHEC and Polymax remitted payments to PVB in the aggregate amount of ₱646,729,262.67. These payments were applied first to the interest and then to the principal, as follows:

Period	Total Payment (i)	Applied To	
		Interest (ii)	Principal (i minus ii)
A ¹⁰⁷	₱ 19,250,000.00	₱ 19,250,000.00	₱ -
B ¹⁰⁸	6,963,527.40	6,416,666.67	546,860.73
C ¹⁰⁹	363,494,583.33	111,094,908.71	252,399,674.62
D ¹¹⁰	6,956,151.94	5,957,346.20	998,805.74
E ¹¹¹	51,115,000.00	2,919,991.16	48,195,008.84
F ¹¹²	50,000,000.00	12,956,608.56	37,043,391.44
G ¹¹³	148,950,000.00	3,118,925.47	145,831,074.53
Total	₱646,729,262.67	₱161,714,446.76	₱ 485,014,815.91

¹⁰⁶ Records, Vol. I, p. 245

¹⁰⁷ From January 7, 2004 to April 6, 2004.

¹⁰⁸ From April 6, 2004 to May 6, 2004.

¹⁰⁹ From May 6, 2004 to January 11, 2006.

¹¹⁰ From January 11, 2006 to March 13, 2006.

¹¹¹ From March 13, 2006 to April 12, 2006.

¹¹² From April 12, 2006 to September 18, 2006.

¹¹³ From September 18, 2006 to November 2, 2006.

The Court notes that for the remaining loan obligation as of November 2, 2006, MAHEC and Polymax were made to sign PN 104006301839¹¹⁴ dated November 2, 2006 with interest at the rate of 12.6316% *per annum* and bearing the maturity date December 29, 2006. As earlier stated, the RTC-Makati nullified PN 104006301839 based on its incorrect finding that MAHEC and Polymax had already fully paid their loan obligation and even had an overpayment in the amount of ₱3,252,150.00. On the other hand, the CA affirmed the RTC-Makati in nullifying PN 104006301839 even when its computation showed that MAHEC and Polymax were still obligated to PVB in the amount of ₱69,767,776.37.

The Court finds that PN 104006301839 remains valid considering that, per the Court's own computation, MAHEC and Polymax remained obligated to PVB in the amount of ₱64,985,184.10 as of November 2, 2006. Similarly, the interest rate of 12.6316% *per annum* that was unilaterally imposed by PVB shall be nullified and the legal interest rate of 12% *per annum* as conventional interest shall be applied instead. Thus:

h) From November 2, 2006 to December 29, 2006

Principal:	₱64,985,184.10
PN Number:	PN 104006301839
Number of days:	57 days
Interest: ¹¹⁵	12% <i>per annum</i> (instead of the nullified 12.6316% <i>per annum</i>): ₱1,217,804.55
Payment:	None
Balance:	₱66,202,988.64

The interest amounting to ₱1,217,804.55 that accrued during this period has been compounded to the principal, pursuant to Section 1.08, Article 1 of the Loan Agreement, which provides: “[i]nterest not paid when due shall be added to and become part of the principal and shall be subject to the same interest rate x x x.”¹¹⁶

¹¹⁴ *Rollo* (G.R. No. 240495), p. 142.

¹¹⁵ *Id.* at 81.

¹¹⁶ *Id.* at 111.

Hence, MAHEC and Polymax's loan exposure as of December 29, 2006 was ₱66,202,988.64.

Five considerations are availing in the present case. *First*, the interest rates unilaterally imposed by PVB are null and void. Accordingly, the legal rate of interest of 12% prevailing on January 7, 2004 applies in the computation of *monetary interest*. *Second*, from the time MAHEC and Polymax availed of the loan on January 7, 2004 until November 2, 2006, they incurred interest from the loan in the aggregate amount of ₱161,714,446.76. *Third*, during the same period, MAHEC and Polymax remitted payments to PVB in the aggregate amount of ₱646,729,262.67. The payments were applied to first satisfy any interest due. *Fourth*, interest amounting to ₱1,217,804.55 accrued from PN 104006301839. *Fifth*, as a consequence, the outstanding loan obligation amounted to ₱66,202,988.64 when PN 104006301839 matured on December 29, 2009.

In these lights, the Court's ruling as to the interests arising from the subject loan obligation is as follows:

First, the monetary interests that fell due prior to the maturity date of PN 104006301839 have been either paid in full or compounded. In contrast, *monetary interest* accruing after PN 104006301839 matured on December 29, 2006 remains due and unpaid. It shall be computed at the rate of 12%¹¹⁷ of the outstanding obligation of ₱66,202,988.64 from December 29, 2006 until full payment.¹¹⁸

Second, in view of the Court's pronouncement in *Vasquez and Sps. Andal*, MAHEC and Polymax shall be considered in default in their obligation to pay only upon finality of this ruling. Consequently, no *compensatory interest* shall accrue.

III. *The CA was correct in nullifying the foreclosure proceedings held on November 24, 2009.*

¹¹⁷ Prevailing legal interest rate on January 7, 2004.

¹¹⁸ See *Uysipuo v. RCBC Bankcard Services Corporation*, G.R. No. 248898, September 7, 2020.

While there is still an outstanding obligation, the CA in its Amended Decision did not err in also declaring that the subsequent foreclosure proceedings held on November 24, 2009 were premature and void in view of the nullity of the interest rates unilaterally imposed by PVB.

No foreclosure proceedings may be instituted in a situation wherein the debtor was not given an opportunity to settle the debt at the correct amount due to the imposition of a null and void interest rate scheme.¹¹⁹ “The registration of such foreclosure sale has been held to be invalid and cannot vest title over the mortgaged property.”¹²⁰ In *Vasquez*, the Court cited some of its previous pronouncements that nullified the foreclosure proceedings based on the imposition of void interest rates, to wit:

In *Heirs of Zoilo Espiritu v. Sps. Landrito*, the loan obligation involved, which was secured by a mortgage, was marred by an iniquitous imposition of monetary interest because the creditors omitted to specifically identify the imposable interest rate, just as in the instant case. Because of the failure of the debtors to pay back the loan, the mortgaged property was foreclosed. The debtors failed to redeem the foreclosed property. The Court in that case held that the foreclosure proceedings should not be given effect, *viz.*:

x x x If the foreclosure proceedings were considered valid, this would result in an inequitable situation wherein the Spouses Landrito will have their land foreclosed for failure to pay an over-inflated loan only a small part of which they were obligated to pay.

xxx xxx xxx

Since the Spouses Landrito, the debtors in this case, were not given an opportunity to settle their debt, at the correct amount and without the iniquitous interest imposed, no foreclosure proceedings may be instituted. A judgment ordering a foreclosure sale is conditioned upon a finding on the correct amount of the unpaid obligation and the failure of the debtor to pay the said amount. In this case, it has not yet been shown that the Spouses Landrito had already failed to pay the correct amount of the debt and, therefore, a foreclosure sale cannot be conducted in order to answer for the unpaid debt. The

¹¹⁹ *Vasquez v. Philippine National Bank*, supra note 77.

¹²⁰ *Id.*

foreclosure sale conducted upon their failure to pay P874,125 in 1990 should be nullified since the amount demanded as the outstanding loan was overstated; consequently it has not been shown that the mortgagors — the Spouses Landrito, have failed to pay their outstanding obligation. Moreover, if the proceeds of the sale together with its reasonable rates of interest were applied to the obligation, only a small part of its original loans would actually remain outstanding, but because of the unconscionable interest rates, the larger part corresponded to said excessive and iniquitous interest.

As a result, the subsequent registration of the foreclosure sale cannot transfer any rights over the mortgaged property to the Spouses Espiritu. The registration of the foreclosure sale, herein declared invalid, cannot vest title over the mortgaged property. The Torrens system does not create or vest title where one does not have a rightful claim over a real property. It only confirms and records title already existing and vested. It does not permit one to enrich oneself at the expense of another. Thus, the decree of registration, even after the lapse of one (1) year, cannot attain the status of indefeasibility.

Similarly, in *Sps. Albos v. Sps. Embisan*, the extra-judicial foreclosure sale of a mortgaged property, which was foreclosed due to the non-payment of a loan, was invalidated because the interest rates imposed on the loan were found to be null and void due to their unconscionability.

In *Sps. Castro v. Tan*, on the basis of the nullity of the imposed interest rates due to their iniquity, the Court nullified the foreclosure proceedings “since the amount demanded as the outstanding loan was overstated. Consequently, it has not been shown that the respondents have failed to pay the correct amount of their outstanding obligation. Accordingly, we declare the registration of the foreclosure sale invalid and cannot vest title over the mortgaged property.”

Also, in *Sps. Andal v. PNB*, the Court upheld the nullification of the foreclosure sale, affirming the appellate court's holding that “since the interest rates are null and void, [respondent] bank has no right to foreclose [petitioners-spouses'] properties and any foreclosure thereof is illegal x x x. Since there was no default yet, it is premature for [respondent] bank to foreclose the properties subject of the real estate mortgage contract.”¹²¹

In accordance with the above established jurisprudence, the Court in *Vasquez* also invalidated the foreclosure sale in view of the nullity of

¹²¹ *Vasquez v. Philippine National Bank*, *supra* note 77.

the interest rate scheme that was imposed by therein respondent bank. The Court held: “*It would be unjust if the foreclosure sale of the subject properties was considered valid, as this would result in an inequitable situation wherein Vasquez would have his properties foreclosed for failure to pay a loan that was unduly inflated due to the unilateral and one-sided imposition of monetary interest.*”¹²²

In the same vein, the Court in this case finds no reason to reverse the CA Amended Decision nullifying the foreclosure proceedings held on November 24, 2009.

It is important to stress Article 1253 of the Civil Code which states that “[i]f the debt produces interest, payment of the principal shall not be deemed to have been made until the interests have been covered.” Based on this provision, the non-payment of the principal loan obligation, therefore, does not place the debtor in a state of default when the interest rates imposed under the contract of loan are null and void.¹²³ Consequently, because MAHEC and Polymax were *not* in a state of default, the foreclosure of the subject properties should not have proceeded.

Considering the nullity of the 14.74% *per annum* and 12.6316% *per annum* interest rates unilaterally imposed by PVB, the foreclosure proceedings that followed based on these invalid interest rates should also be struck down as null and void. As a consequence, the TCT 011-2010000057 that was issued in the name of PVB should be ordered cancelled and reverted to TCT PT-101859.

A. The mortgagor, Wellex, who was unlawfully dispossessed of the Pasig Property due to the premature and void foreclosure proceedings, is entitled to receive reasonable rent from PVB to be reckoned from the time of unlawful dispossession until actual possession is restored.

¹²² *Id.*

¹²³ *Id.*

Having found and declared as premature and void the extrajudicial foreclosure sale of the Pasig Property covered by TCT No. PT-101859, the Court finds it proper to order PVB to pay reasonable rentals to Wellex, the mortgagor of the foreclosed property, for the period that Wellex was deprived of possession thereof by virtue of the writ of possession issued in favor of PVB as the purchaser at the foreclosure sale.

In *Dev't. Bank of the Phils. v. Guariña Agricultural & Realty Dev't Corp.*,¹²⁴ the Court upheld the nullity of the extrajudicial foreclosure of the real estate and chattel mortgages at the instance of Development Bank of the Philippines (DBP) for being premature. Further, it affirmed the order of restoration of possession to the debtor-mortgagor, Guariña Agricultural & Realty Development Corporation (Guariña), and the payment by DBP of reasonable rentals for the use of Guariña's properties, *viz.*:

Having found and pronounced that the extrajudicial foreclosure by BDP was premature, and that the ensuing foreclosure sale was void and ineffectual, the Court affirms the order for the restoration of possession to Guariña Corporation and the payment of reasonable rentals for the use of the resort. The CA properly held that the premature and invalid foreclosure had unjustly dispossessed Guariña Corporation of its properties. x x x.¹²⁵

By the same token, Wellex should be entitled to both the restoration of possession of the Pasig Property and the payment of reasonable rentals from PVB. Although not specifically prayed for in the petition in G.R. No. 240495, the restoration of possession and the payment of reasonable rentals are deemed to fall within MAHEC, Polymax, and Wellex's general prayer for just and equitable reliefs under the premises.¹²⁶ In any case, these reliefs are in accord with Article 561 of the Civil Code of the Philippines which provides: "one who recovers, according to law, possession unjustly lost, shall be deemed for all purposes which may redound to his benefit, to have enjoyed it without interruption."¹²⁷

¹²⁴ 724 Phil. 209 (2014).

¹²⁵ *Id.* at 226.

¹²⁶ See *rollo* (G.R. 240495), p. 38.

¹²⁷ See *Dev't. Bank of the Phils. v. Guariña Agricultural & Realty Dev't Corp.*, *supra* note 124 at 226.

However, the amount of reasonable rent being a factual question, which the Court cannot determine under these Rule 45 petitions, the Court deems it proper to refer the case to the RTC-Makati for the proper determination and ascertainment of the reasonable rent due to Wellex during the intervening period.

WHEREFORE, the Petitions for Review on *Certiorari* in G.R. No. 240495 and G.R. No. 240513 are both **DENIED**. The Amended Decision dated February 28, 2018 and the Resolution dated July 2, 2018 of the Court of Appeals in CA-G.R. CV No. 105323 are **AFFIRMED** with **MODIFICATION**.

Metro Alliance Holdings and Equities Corporation, Polymax Worldwide Limited and Wellex Industries, Inc. are **ORDERED TO PAY** Philippine Veterans Bank:

- a) The outstanding principal loan obligation of ₱66,202,988.64; and
- b) Monetary interest on the outstanding principal loan obligation at the rate of 12% *per annum* from December 29, 2006 until full payment.

The foreclosure proceedings conducted on November 24, 2009 are declared **NULL** and **VOID**. Accordingly, the cancellation of Transfer Certificate of Title No. PT-101859 kept in the Register of Deeds of Pasig City, and the consolidation and issuance of Transfer Certificate of Title No. 011-2010000057 in favor of the Philippine Veterans Bank are ordered **CANCELLED**. Transfer Certificate of Title No. PT-101859 is hereby ordered **RECONSTITUTED**.


Further, Philippine Veterans Bank is **ORDERED TO PAY** reasonable rent to Wellex Industries, Inc. based on the computation of Branch 145, Regional Trial Court, Makati City, which, in turn, is **DIRECTED** to determine and ascertain with dispatch the reasonable amount of rent due to Wellex Industries, Inc. to be reckoned from the time Wellex Industries, Inc. was wrongfully deprived of possession of the property covered by Transfer Certificate of Title No. PT-101859 until actual possession is restored to it.

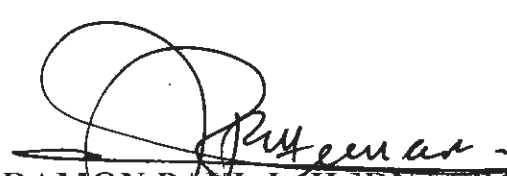
Let a copy of this Decision be furnished to the Register of Deeds of Pasig City.

SO ORDERED.


HENRI JEAN PAUL B. INTING
Associate Justice

WE CONCUR:


ESTELA M. PERLAS-BERNA BE
Senior Associate Justice
Chairperson

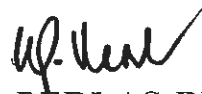

RAMON PAUL L. HERNANDO
Associate Justice


SAMUEL H. GAERLAN
Associate Justice


RICARDO R. ROSARIO
Associate Justice

ATTESTATION

I attest that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.



ESTELA M. PERLAS-BERNABE
Senior Associate Justice
Chairperson

CERTIFICATION

Pursuant to Section 13, Article VIII of the Constitution and the Division Chairperson's Attestation, I certify that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.



ALEXANDER G. GESMUNDO
Chief Justice

