



Republic of the Philippines  
 Supreme Court  
 Manila

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SUPREME COURT OF THE PHILIPPINES  
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ESTRELLA PABALAN,  
 Petitioner,

G.R. No. 211363

Present:

GESMUNDO, C.J.,  
 LEONEN,  
 CAGUIOA,  
 HERNANDO,  
 LAZARO-JAVIER,  
 INTING,  
 ZALAMEDA,  
 LOPEZ, M.,  
 GAERLAN,  
 ROSARIO,  
 LOPEZ, J.,  
 DIMAAMPAO,  
 MARQUEZ,  
 KHO, JR., and  
 SINGH, JJ.

- versus -

VASUDAVE SABNANI,  
 Respondent.

Promulgated:  
 February 21, 2023

X-----[Signature]-----X

DECISION

GAERLAN, J.:

This is a Petition for Review on *Certiorari*<sup>1</sup> assailing the Decision<sup>2</sup> dated November 28, 2012 and Resolution<sup>3</sup> dated February 12, 2014 of the Court of Appeals (CA) in CA-G.R. CV No. 91169. The assailed CA rulings

<sup>1</sup> *Rollo*, pp. 13-43.

<sup>2</sup> *Id.* at 46-72; penned by Associate Justice Noel G. Tijam (now a retired Member of this Court) with Associate Justices Romeo F. Barza and Ramon A. Cruz concurring.

<sup>3</sup> *Id.* at 74-78.

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affirmed with modification the Decision<sup>4</sup> dated March 28, 2005 of the Regional Trial Court (RTC) of Makati City, Branch 59, in Civil Case No. 99-1361.

### The Antecedent Facts

On April 30, 1999, Vasudave Sabnani (Sabnani), a British national, obtained a short-term loan from Estrella Pabalan (Pabalan) in the total amount of ₱7,450,000.00.<sup>5</sup> As securities for the loan, he executed two promissory notes<sup>6</sup> (PNs) and a Deed of Real Estate Mortgage<sup>7</sup> (REM) over his condominium unit at the Skyland Plaza Condominium, Makati City.<sup>8</sup>

The First PN<sup>9</sup> indicated the principal loan amount of ₱1,450,000.00 with an interest rate of eight percent (8%) per month. This was payable within a period of three months in accordance with the following payment schedule:

₱116,000.00 representing interest payable on April 30, 1999[;]  
₱116,000.00 representing interest payable on May 31, 1999[;]  
₱116,000.00 representing interest payable on June 30, 1999[;]  
₱1,450,000.00 representing principal payable on July 30, 1999[.]

The Second PN<sup>10</sup> indicated a principal loan amount of ₱6,000,000.00 with an interest rate of five percent (5%) per month. This was also payable in three months, in accordance with the following payment schedule:

₱300,000.00 representing interest payable on April 30, 1999[;]  
₱300,000.00 representing interest payable on May 31, 1999[;]  
₱300,000.00 representing interest payable on June 30, 1999[;]  
₱6,000,000.00 representing principal payable on July 30, 1999[.]

The two PNs had common provisions on the consequences of default, summarized as follows:

1. If the stipulated interest was not paid when due, Sabnani would be required to pay a higher interest rate of twenty percent (20%) per month on the outstanding principal loan.

<sup>4</sup> Id. at 186-195; penned by Presiding Judge Winlove M. Dumayas.

<sup>5</sup> Id. at 47.

<sup>6</sup> Id. at 79-80.

<sup>7</sup> Id. 81-86.

<sup>8</sup> Id. at 47.

<sup>9</sup> Id. at 79.

<sup>10</sup> Id. at 80.

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2. If the case is referred to an attorney for collection or legal action, Sabnani agreed to pay Pabalan:
  - 2.1. Additional Interest Penalty equivalent to twenty percent (20%) per month on the total unpaid principal, accrued interest, and penalty;
  - 2.2. Liquidated Damages equivalent to fifty percent (50%) of the total unpaid principal, accrued interest, and penalty;
  - 2.3. Attorney's Fees equivalent to twenty-five percent (25%) of the total unpaid principal, accrued interest, and penalty; and
  - 2.4. Other costs and expenses of litigation.<sup>11</sup>

The REM reiterated the payment terms in the PNs and provided Pabalan with the right to foreclose the property in case of default. It also contained an acceleration clause such that failure to pay any amounts due under the PNs would render the entire obligation immediately due and demandable.<sup>12</sup>

Sabnani failed to pay the installment due on May 31, 1999. Pabalan sent him the Demand Letter<sup>13</sup> dated June 8, 1999, asking him to pay the total amount of ₱8,940,000.00 by June 21, 1999. This amount consisted of the principal loan of ₱7,450,000.00, interest and penalty charges of ₱1,490,000.00.<sup>14</sup>

Still, Sabnani did not pay despite demand which constrained Pabalan to file an application for the extrajudicial foreclosure of the mortgaged property with the Office of the Clerk of Court and Ex-Officio Sheriff of the RTC of Makati City. The foreclosure sale was set on August 3, 1999, at 10:30 a.m.<sup>15</sup>

To prevent the foreclosure sale, Sabnani filed a Complaint for Annulment of REM, PNs, and Notice of Sheriff's Sale with prayer for the issuance of a temporary restraining order (TRO) and/or writ of preliminary injunction (WPI) and damages.<sup>16</sup> In her Answer with Compulsory Counterclaims,<sup>17</sup> Pabalan asserted that her right to foreclose the mortgage was evidently supported by the terms of the Deed of REM.<sup>18</sup>

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<sup>11</sup> Id. at 79-80.

<sup>12</sup> Id. at 82.

<sup>13</sup> Id. at 88.

<sup>14</sup> Id. at 88 and 201-202.

<sup>15</sup> Id. at 47.

<sup>16</sup> Id. at 90-97.

<sup>17</sup> Id. at 98-107.

<sup>18</sup> Id. at 101.

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On July 30, 1999, a hearing on the application for a TRO and/or WPI was conducted.<sup>19</sup> However, in a Resolution dated August 3, 1999, the RTC denied the same on the ground that there was insufficient basis to prevent the foreclosure sale. It concluded that he would not suffer any substantial injury since he could participate in the public bidding or redeem his property within a year.<sup>20</sup> The foreclosure sale therefore proceeded as scheduled and Pabalan won as the sole and highest bidder amounting to ₱17,400,000.00.<sup>21</sup> This bid price notably exceeded the amount indicated in the Notice of Sheriff's Sale because Pabalan used as basis an updated Statement of Account which reflected additional interests, penalties, liquidated damages, and attorney's fees that accrued pursuant to the PNs.<sup>22</sup>

On March 16, 2000, Sabnani filed an Amended Complaint<sup>23</sup> still seeking to annul the foreclosure sale, demand the payment of damages, and obtain a WPI. He added that Pabalan made unauthorized deductions from the loan which, if properly considered, would prevent him from being in default and make the foreclosure action premature. Although the principal loan was ₱7,450,000.00, Pabalan allegedly released to him only ₱6,447,700.00 after unilaterally deducting the following amounts:<sup>24</sup>

Advance Interest	[₱]416,000.00
Service Fees (7%)	₱521,500.00
Real Property Tax Clearance	₱31,900.00
Tax Declaration	₱500.00
BIR Fees	₱14,900.00
Registry of Deeds fees	₱17,500.00
<b>Total Deductions</b>	<b><u>[₱]1,002,300.00</u></b> <sup>25</sup>

Sabnani claimed that not all of these deductions were agreed upon by them and authorized under the PNs. He admitted that the advance interest pertained to the period – from April 30 to May 30, 1999. However, the service fees had no contractual basis and should instead be applied as payment for the interest for the period – from May 31 to June 30, 1999, and as partial payment for the interest due from June 30 to July 30, 1999. Also, he claimed that if the deductions were correctly applied to the amount of the loan, he would not have been in default at the time Pabalan sought to foreclose the REM.<sup>26</sup>

<sup>19</sup> Id. at 187.

<sup>20</sup> Id. at 48.

<sup>21</sup> Id. at 183.

<sup>22</sup> Id. at 193.

<sup>23</sup> Id. at 108-122.

<sup>24</sup> Id. at 48-49.

<sup>25</sup> Id.

<sup>26</sup> Id.

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He further alleged that the REM and PNs he executed in favor of Pabalan should be annulled for lack of consideration. He stressed that he never received any benefit from the loan since he agreed to obtain it only as an accommodation for his business partner, Michael Claparols (Claparols). He did not receive any amount of the loan as it was given immediately to Claparols.<sup>27</sup>

Lastly, he argued that the rates of interest, penalty charges, and other fees imposed in the REM and PNs were “illegal, excessive, exorbitant, and unconscionable” and should be voided.<sup>28</sup>

### The RTC Ruling

After trial, the RTC rendered its Decision<sup>29</sup> upholding the validity of the REM, PNs, and the foreclosure sale conducted. It pertinently held:

WHEREFORE, above premises is hereby considered, the instant complaint be dismissed for lack of merit. The counterclaim of defendant Pabalan is likewise dismissed. No cost.

SO ORDERED.<sup>30</sup>

The RTC held that there was insufficient basis to nullify Sabnani’s REM and PNs and the terms of the agreements reduced into writing must necessarily be given effect.<sup>31</sup> It also denied his contention that the service fees deducted were unauthorized and illegal. It explained that this claim was negated by his signature on a Receipt acknowledging that he received the entire amount of the loan despite these deductions being reflected.<sup>32</sup>

It further rejected Sabnani’s argument that the interest rates and penalty charges imposed were illegal, excessive, and exorbitant. It emphasized that the usury law was no longer in force and that parties can freely impose interest rates as they may agree upon.<sup>33</sup>

Dissatisfied, Sabnani filed a Motion for Reconsideration with Motion to Re-open Case for Admission of Newly Discovered Evidence.<sup>34</sup> He reiterated that Pabalan made unauthorized deductions from the principal loan

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<sup>27</sup> Id. at 186.

<sup>28</sup> Id. at 188.

<sup>29</sup> Id. at 186-195.

<sup>30</sup> Id. at 195.

<sup>31</sup> Id. at 189.

<sup>32</sup> Id. at 189-190.

<sup>33</sup> Id. at 190.

<sup>34</sup> Id. at 196-225.

which should have been applied to the payment of interest charges. He also raised the new argument that Pabalan is an American citizen who was not allowed to engage in the business of extending loans without a written certificate from the Board of Investments. Hence, due to his legal incapacity, the loan agreement, REM, and PNs must be declared null and void.<sup>35</sup>

The RTC issued an Order<sup>36</sup> dated March 22, 2006 which denied Sabnani's motion for reconsideration, but granted the motion for new trial. However, after trial anew, it issued an Order<sup>37</sup> dated January 10, 2008 merely reinstating its previous Decision.<sup>38</sup>

Sabnani appealed the foregoing Order<sup>39</sup> to the CA.<sup>40</sup>

Sabnani filed his Appellant's Brief<sup>41</sup> essentially reiterating his arguments that: (1) the service fees and other charges imposed and deducted by Pabalan were undisclosed and invalid; (2) the stipulated interest rates and penalty charges were unconscionable, exorbitant, and illegal; and (3) Pabalan was an American citizen who could not legally enter into any contract pertaining to her financing business or extending loans or credits.<sup>42</sup>

Pabalan filed her Appellee's Brief<sup>43</sup> stressing that the parties are allowed by law to enter into contracts that are not contrary to law, public policy, morals, and custom. Sabnani freely and voluntarily executed the REM and PNs with full knowledge of its terms and conditions, and is therefore, contractually bound.<sup>44</sup>

### The CA Ruling

The CA rendered its Decision<sup>45</sup> affirming the validity of the loan, REM, and PNs. However, it reduced the stipulated interest rates, penalty charges, liquidated damages, and attorney's fees for being iniquitous and unconscionable. The dispositive portion of the assailed decision states:

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<sup>35</sup> Id. at 223-224.

<sup>36</sup> Id. at 226-227.

<sup>37</sup> Id. at 46, CA Decision.

<sup>38</sup> Id. at 186-195, RTC Decision.

<sup>39</sup> Id. at 46, CA Decision.

<sup>40</sup> Id. at 228.

<sup>41</sup> Id. at 229-280.

<sup>42</sup> Id. at 230-231.

<sup>43</sup> Id. at 281-294.

<sup>44</sup> Id. at 288-289.

<sup>45</sup> Id. at 46-72.

WHEREFORE, judgment is hereby rendered **AFFIRMING** the trial court's decision in Civil Case No. 99-1361 in:

- A. Upholding the **validity of the two (2) Promissory Notes and the Deed of Real Estate Mortgage dated March 30, 1999** but with **MODIFICATION** insofar as:
1. the interest rate is reduced to 1% per month or 12% per annum;
  2. the penalty is reduced to 1% per month or 12% per annum;
  3. the liquidated damages is reduced to 10% of the amount due; and
  4. the attorney's fees is reduced to 10% of the amount due.
- B. Upholding the **validity of the extra-judicial foreclosure sale of the Real Estate Mortgage** conducted on August 3, 1999.

**Defendant-Appellee Pabalan is likewise ORDERED to pay [Sabnani], through the Clerk of Court, the excess of the bid price with legal interest from August 3, 1999 until it is paid,** such amount representing the difference between the total obligation of Plaintiff-Appellant [Sabnani], including the costs of the sale and the purchase price paid by Defendant-Appellee Pabalan, at the time of the foreclosure sale.

**SO ORDERED.**<sup>46</sup> (Emphases in the original)

The CA denied Sabnani's argument that Pabalan had no legal capacity to execute the loan agreement because she was an American citizen. It ruled that there was no competent proof that Pabalan was engaged in the business of extending loans and credit in the Philippines to require a certificate from the Board of Investments.<sup>47</sup>

It likewise rejected the claim that the REM and PNs should be nullified on the ground of lack of consideration. It ruled that obligations arising from contracts have the force of law between the parties and must be complied with in good faith.<sup>48</sup>

Nevertheless, while the Deed of REM and PNs were upheld as valid, the CA deemed it necessary to reduce the interest rates, penalty charges, liquidated damages, and attorney's fees for being unconscionable. It reduced the imposed monthly interest rates of five percent (5%) and eight percent

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<sup>46</sup> Id. at 71-72.

<sup>47</sup> Id. at 54-55.

<sup>48</sup> Id. at 57-61.

(8%), both to one percent (1%); the penalty charge of twenty percent (20%) per month to one percent (1%) per month; and the rates of liquidated damages and attorney's fees of fifty percent (50%) and twenty five percent (25%) of the amount due, respectively, to ten percent (10%) each.<sup>49</sup>

The CA summarized its revised computation of the interests, penalties, liquidated damages, and attorney's fees due as follows:<sup>50</sup>

Based on the foregoing discussion, We take exception to the *Statement of Account* submitted by Defendant-Appellee [Pabalan] on the date of foreclosure insofar as the unconscionable interests and other charges imposed on top of the principal obligation quoted below:

Principal Loan	[P]	7,450,000.00
Accrued Interests & Penalties (May 31, 1999 – July 31, 1999)		4,470,000.00
Liquidated Damages		5,960,000.00
Attorney's Fees		2,980,000.00
Filing Fee		40,700.00
<b>TOTAL</b>	<b>[P]</b>	<b>20,900,700.00</b>

On the other hand, We believe that the following computation is in order using the reduced rates of interests and penalties:

Principal Loan	[P]	7,450,000.00
Accrued Interests & Penalties (May 31, 1999 – July 31, 1999)		447,000.00
Liquidated Damages		789,700.00
Attorney's Fees		789,700.00
Filing Fee		40,700.00
<b>TOTAL</b>	<b>[P]</b>	<b>9,517,100.00<sup>51</sup></b>

Consequently, it ruled that Pabalan's winning bid of ₱17,400,000.00 was in excess of the recomputed mortgage debt, and ordered her to return the surplus to Sabnani.<sup>52</sup>

Pabalan filed a Motion for Partial Reconsideration<sup>53</sup> insisting that the rates of interest, penalties, liquidated damages, and attorney's fees as stipulated by the parties should be upheld. Further, the CA gravely erred in ordering her to return the supposed surplus of the bid price to Sabnani.<sup>54</sup>

<sup>49</sup> Id. at 62-64.

<sup>50</sup> Id. at 65-66.

<sup>51</sup> Id.

<sup>52</sup> Id. at 66.

<sup>53</sup> Id. at 296-311.

<sup>54</sup> Id. at 298-299.



The CA issued its Resolution<sup>55</sup> denying Pabalan's motion for lack of merit.

Hence, the instant petition.

### The Issues

Whether or not the CA erred: (1) in reducing the stipulated rates of interest, penalty charges, liquidated damages, and attorney's fees; and (2) in ordering Pabalan to return the surplus of her winning bid price to Sabnani.

### The Parties' Arguments

Pabalan in her Petition for Review on *Certiorari* and Reply<sup>56</sup> mainly argued that:

1. Sabnani is estopped from claiming that the interest rate imposed is unconscionable. He cannot pretend to be victimized by the rates he voluntarily agreed to, especially since he was a businessman himself.<sup>57</sup>
2. Sabnani came to court with unclean hands. Firstly, he deliberately refused to honor his obligation to Pabalan. Secondly, he admitted the loan from Pabalan to re-lend the ₱6,000,000.00 to Claparols, who would then use it to invest in one of his businesses. Claparols then issued a check to him for ₱8,282,000.00 payable a month later. He therefore claims that five to eight percent (5% to 8%) monthly interest is unconscionable when in fact, he charged Claparols forty-seven (47%) interest for one month for the loan he extended him using the same money.<sup>58</sup>
3. The stipulated contractual interest rate was not unconscionable since this was only for a short-term period.<sup>59</sup>
4. By ordering the payment of the "excess bid" with an interest of 12% *per annum* from the date of the foreclosure sale on August 3, 1999,

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<sup>55</sup> Id. at 74-78.

<sup>56</sup> Id. at 374-382.

<sup>57</sup> Id. at 24-26.

<sup>58</sup> Id. at 26-27.

<sup>59</sup> Id. at 29-30.

the CA “created the outrageous spectacle of [Pabalan] losing not only the interest that she was supposed to have earned, but also the principal amount that she had loaned to [Sabnani].” This order shall result in Sabnani’s unjust enrichment at Pabalan’s expense.<sup>60</sup>

In response, Sabnani in his Comment/Opposition<sup>61</sup> maintained that the court has the power to reduce unconscionable interest rates when warranted. He also alleged that there was no proof that he lent the money given to him by Pabalan to Claparols, and that the former had no personality to question any such alleged loan since she was not privy to it.<sup>62</sup>

### The Ruling of this Court

After a judicious review, this Court resolves to grant the petition.

It is noted that Central Bank Circular No. 905 s. 1982<sup>63</sup> which suspended the Usury Law has granted contracting parties wide latitude to stipulate interest rates. However, the freedom to contract is still not absolute. Article 1306<sup>64</sup> of the New Civil Code governing the right to contract provides that agreements cannot be contrary to law, morals, good customs, public order, or public policy. In this regard, the Court has cautioned that lenders do not have the “*carte blanche* authority to raise interest rates to levels which will either enslave their borrowers or lead to a hemorrhaging of their assets.”<sup>65</sup> It thus has discretionary power to intervene in certain cases and reduce stipulated interest rates that are found to be unconscionable, iniquitous, and illegal.<sup>66</sup>

The determination of whether or not interest rates are unconscionable or illegal depends on the circumstances of each case. It was explained in *Vitug v. Abuda*<sup>67</sup> (*Vitug*) that stipulated interest rates are not inherently conscionable or unconscionable. These interest rates may be deemed unconscionable only “in light of the context in which they were imposed or applied.”<sup>68</sup>

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<sup>60</sup> Id. at 36-40.

<sup>61</sup> Id. at 361-371.

<sup>62</sup> Id. at 361-362.

<sup>63</sup> Which took effect on January 1, 1983.

<sup>64</sup> CIVIL CODE, Article 1306, provides:

Article 1306. The contracting parties may establish such stipulations, clauses, terms and conditions as they may deem convenient, provided they are not contrary to law, morals, good customs, public order, or public policy

<sup>65</sup> *Cuaton v. Salud*, 465 Phil. 999, 1004 (2004).

<sup>66</sup> *Spouses Castro v. Tan*, 620 Phil. 239, 249 (2009).

<sup>67</sup> 776 Phil. 540 (2016).

<sup>68</sup> Id. at 569.

The Court in *Vitug* elucidated that parties' freedom to stipulate is granted under the assumption that there is a competitive market for loans where the parties are on equal footing. It is only when there are imperfections in the loan market resulting in the parties' unequal bargaining positions that the court can step in to ensure that the agreement is not iniquitous or unconscionable.<sup>69</sup> Its pertinent discussion is instructive:

The freedom to stipulate interest rates is granted under the assumption that we have a perfectly competitive market for loans where a borrower has many options from whom to borrow. It assumes that parties are on equal footing during bargaining and that neither of the parties has a relatively greater bargaining power to command a higher or lower interest rate. It assumes that the parties are equally in control of the interest rate and equally have options to accept or deny the other party's proposals. In other words, the freedom is granted based on the premise that parties arrive at interest rates that they are willing but are not compelled to take either by force of another person or by force of circumstances.

However, the premise is not always true. There are imperfections in the loan market. One party may have more bargaining power than the other. A borrower may be in need of funds more than a lender is in need of lending them. In that case, the lender has more commanding power to set the price of borrowing than the borrower has the freedom to negotiate for a lower interest rate.

Hence, there are instances when the state must step in to correct market imperfections resulting from unequal bargaining positions of the parties.

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In stipulating interest rates, parties must ensure that the rates are neither iniquitous nor unconscionable. Iniquitous or unconscionable interest rates are illegal and, therefore, void for being against public morals. The lifting of the ceiling on interest rates may not be read as "grant[ing] lenders *carte blanche* [authority] to raise interest rates to levels which will either enslave their borrowers or lead to a hemorrhaging of their assets."<sup>70</sup> (Citations omitted)

Hence, although the Court has, in some cases, reduced stipulated interest rates, there have also been instances when no intervention was made in view of the peculiar factual circumstances.

For instance, the Court in *Development Bank of the Philippines v. Family Foods Manufacturing Co., Ltd.*<sup>71</sup> upheld the stipulated interest rates of twenty-two percent (22%) and eighteen percent (18%), and additional penalty

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<sup>69</sup> Id. at 567-568.

<sup>70</sup> Id. at 567-569.

<sup>71</sup> 611 Phil. 843 (2009).

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charge of eight percent (8%) *per annum*. It appreciated the fact that these rates were voluntarily agreed upon by the parties, and that neither of them was defrauded or positioned at a disadvantage to warrant protection, to wit:

Moreover, respondents' own evidence shows that they agreed on the stipulated interest rates of 18% and 22%, and on the penalty charge of 8%, in each promissory note. It is a basic principle in civil law that parties are bound by the stipulations in the contracts voluntarily entered into by them. Parties are free to stipulate terms and conditions that they deem convenient, provided these are not contrary to law, morals, good customs, public order, or public policy.

There is nothing in the records, and in fact, there is no allegation, showing that respondents were victims of fraud when they signed the promissory notes. Neither is there a showing that in their contractual relations with DBP, respondents were at a disadvantage on account of their moral dependence, mental weakness, tender age or other handicap, which would entitle them to the vigilant protection of the courts as mandated by Article 24 of the Civil Code.<sup>72</sup> (Citation omitted)

Similarly, the interest rate of six to seven percent (6-7%) per month, or seventy-two to eighty-four percent (72-84%) *per annum*, imposed in *Toledo v. Hyden*<sup>73</sup> was held not to be excessive under the circumstances. It was observed that unlike in other cases when intervention was necessary, the debtor in this case was not compelled to enter into the loan transaction and actually had good business reasons to voluntarily agree on the stipulated interest rates. As proven, the debtor was found to be making a business on the amount loaned. She thus, could no longer deny the validity of the terms of the loan after enjoying its benefits:

In this case, however, we cannot consider the disputed 6% to 7% monthly interest rate to be iniquitous or unconscionable *vis-à-vis* the principle laid down in *Medel*. Noteworthy is the fact that in *Medel*, the defendant-spouses were never able to pay their indebtedness from the very beginning and when their obligations ballooned into a staggering sum, the creditors filed a collection case against them. **In this case, there was no urgency of the need for money on the part of Jocelyn, the debtor, which compelled her to enter into said loan transactions. She used the money from the loans to make advance payments for prospective clients of educational plans offered by her employer. In this way, her sales production would increase, thereby entitling her to 50% rebate on her sales. This is the reason why she did not mind the 6% to 7% monthly interest.** Notably too, a business transaction of this nature between Jocelyn and Marilou continued for more than five years. Jocelyn religiously paid the agreed amount of interest until she ordered for stop payment on some of the checks issued to Marilou. The checks were in fact sufficiently funded when she ordered the stop payment and then filed a case questioning the

<sup>72</sup> Id. at 853.

<sup>73</sup> 652 Phil. 70 (2010).

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imposition of a 6% to 7% interest rate for being allegedly iniquitous or unconscionable and, hence, contrary to morals.

It was clearly shown that before Jocelyn availed of said loans, **she knew fully well that the same carried with it an interest rate of 6% to 7% per month, yet she did not complain.** In fact, when she availed of said loans, an advance interest of 6% to 7% was already deducted from the loan amount, yet she never uttered a word of protest.

After years of benefiting from the proceeds of the loans bearing an interest rate of 6% to 7% per month and paying for the same, Jocelyn cannot now go to court to have the said interest rate annulled on the ground that it is excessive, iniquitous, unconscionable, exorbitant, and absolutely revolting to the conscience of man. "This is so because among the maxims of equity are (1) he who seeks equity must do equity, and (2) he who comes into equity must come with clean hands. The latter is a frequently stated maxim which is also expressed in the principle that he who has done inequity shall not have equity. It signifies that a litigant may be denied relief by a court of equity on the ground that his conduct has been inequitable, unfair and dishonest, or fraudulent, or deceitful as to the controversy in issue."

We are convinced that Jocelyn did not come to court for equitable relief with equity or with clean hands. It is patently clear from the above summary of the facts that the conduct of Jocelyn can by no means be characterized as nobly fair, just, and reasonable. This Court likewise notes certain acts of Jocelyn before filing the case with the RTC. In September 1998, she requested Marilou not to deposit her checks as she can cover the checks only the following month. On the next month, Jocelyn again requested for another extension of one month. It turned out that she was only sweet-talking Marilou into believing that she had no money at that time. But as testified by Serapio Romarate, an employee of the Bank of Commerce where Jocelyn is one of their clients, there was an available balance of ₱276,203.03 in the latter's account and yet she ordered for the stop payments of the seven checks which can actually be covered by the available funds in said account. She then caught Marilou by surprise when she surreptitiously filed a case for declaration of nullity of the document and for damages.

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More significantly, Jocelyn already availed herself of the benefits of the "Acknowledgment of Debt," the validity of which she now impugns. As aptly found by the RTC and the CA, Jocelyn was making a business out of the loaned amounts. She was actually using the money to make advance payments for her prospective clients so that her sales production would increase. Accordingly, she did not mind the 6% to 7% interest per month as she was getting a 50% rebate on her sales.

Clearly, by her own acts, Jocelyn is *estopped* from impugning the validity of the "Acknowledgment of Debt." "**[A] party to a contract cannot deny the validity thereof after enjoying its benefits without outrage to one's sense of justice and fairness.**" "It is a long established doctrine that the law does not relieve a party from the effects of an unwise,

foolish or disastrous contract, entered into with all the required formalities and with full awareness of what she was doing. Courts have no power to relieve parties from obligations voluntarily assumed, simply because their contracts turned out to be disastrous or unwise investments.”<sup>74</sup> (Emphases and underscoring supplied; citations omitted)

It was further noted in *Prisma Construction & Development Corporation v. Menchavez*<sup>75</sup> that stipulated interest rates and charges shall be reduced only if these terms are open-ended and applied for an indefinite period.<sup>76</sup>

Finally, the Court is mindful of its recent Resolution rendered *en banc* ruling on the Motion for Reconsideration filed in *Lara’s Gifts and Decors, Inc. v. Midtown Industrial Sales, Inc.*<sup>77</sup> (*Lara’s Gifts*) wherein it established the new and prevailing guidelines on conventional and compensatory interest rates. It was recognized in the *ponencia* of Senior Associate Justice Marvic M.V.F. Leonen that the standard used in determining the conscionability of a conventional interest rate is twice the legal rate of interest. If the stipulated interest rate is higher than this standard, the creditor has the burden to prove that this was necessary under market conditions, or show that the parties stood on equal footing when they agreed on it. It was pertinently pronounced:

Conformable to the foregoing pronouncements, “[t]he maximum interest rate that will not cross the line of conscionability is ‘not more than twice the prevailing legal rate of interest.’ If the stipulated interest exceeds this standard, the creditor must show that the rate is necessary under current market conditions.” The creditor must also show that the parties were on an equal footing when they stipulated on the interest rate.

Furthermore, where the monetary interest rate is found to be unconscionable, only the rate is nullified and deemed not written into the contract; the parties’ agreement on the payment of interest remains. In such instance, “the legal rate of interest prevailing at the time the agreement was entered into” is applied by the courts.<sup>78</sup> (Emphasis and underscoring supplied, italics in the original, citations omitted)

The rules in determining permissible compensatory interest rates as laid down in *Eastern Shipping Lines, Inc. v. Court of Appeals*<sup>79</sup> and *Nacar v. Gallery Frames*<sup>80</sup> were likewise revised in *Lara’s Gifts*. The following new guidelines applicable to loans, forbearances of money, goods or credit, were established, thus:

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<sup>74</sup> Id. at 79-81 and 83.

<sup>75</sup> 628 Phil. 495 (2010).

<sup>76</sup> Id. at 504.

<sup>77</sup> G.R. No. 225433, September 20, 2022.

<sup>78</sup> Id.

<sup>79</sup> 304 Phil. 236 (1994).

<sup>80</sup> 716 Phil. 267 (2013).

With regard to an award of interest in the concept of actual and compensatory damages, the rate of interest, as well as the accrual thereof, is imposed, as follows:

A. In obligations consisting of loans or forbearances of money, goods or credit:

1. The compensatory interest due shall be that which is stipulated by the parties in writing as the penalty or compensatory interest rate, provided it is not unconscionable. In the absence of a stipulated penalty or compensatory interest rate, the compensatory interest due shall be that which is stipulated by the parties in writing as the conventional interest rate, provided it is not unconscionable. In the absence of a stipulated penalty or a stipulated conventional interest rate, or if these rates are unconscionable, the compensatory interest shall be the prevailing legal interest rate prescribed by the Bangko Sentral ng Pilipinas. Compensatory interest, in the absence of a stipulated reckoning date, shall be computed from default, i.e., from extrajudicial or judicial demand, *until full payment*.

2. Interest on conventional/monetary interest and stipulated compensatory interest shall accrue at the stipulated interest rate (compounded interest) from the stipulated reckoning point or, in the absence thereof, from extrajudicial or judicial demand *until full payment*, provided it is not unconscionable. In the absence of a stipulated compounded interest rate or if this rate is unconscionable, the prevailing legal interest rate prescribed by the Bangko Sentral ng Pilipinas shall apply from the time of judicial demand *until full payment*.<sup>81</sup>

Applying the foregoing to this case, We hold that the parties' stipulated rates of interest, penalty charges, liquidated damages, and attorney's fees were not iniquitous, unconscionable, or illegal given their particular context. The CA erred in modifying the RTC Decision and decreasing these rates.

It bears stressing that the new rules on conventional and compensatory interest rates established in *Lara's Gifts* will not apply here considering that Pabalan sufficiently discharged her burden to prove that she and Sabnani were on equal footing when they reached their agreement. No greater interest of justice or equity would be served if the Court intervened.

The determination of whether or not the parties stood on equal footing is necessarily done on a case-to-case basis after careful consideration of relevant factors. For one, the Court shall examine the parties' respective backgrounds and personal circumstances. It must compare the parties to verify if one of them was possibly disadvantaged due to moral dependence, mental

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<sup>81</sup> *Lara's Gifts and Decors, Inc. v. Midtown Industrial Sales*, supra note 77.

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weakness, tender age, or other handicap, to warrant protection.<sup>82</sup> This may entail reviewing each parties' educational attainment, employment or professional history, financial status, and other relevant experiences. These factors, among others, will have weight in evaluating whether both parties had the capacity to fully understand and voluntarily consent to the agreement entered into.

The history and relationship of the contracting parties could likewise be significant. The Court can look into how they were acquainted or if they had previously entered in similar or other transactions. Does the agreement involve an isolated transaction or was it part of a bigger series of agreements or a mere continuation of past agreements?

The Court must review the context and facts surrounding the transaction. It should consider all significant circumstances such as if the contract was one of adhesion or one reached through fair and arm's length negotiations. It should look into how the agreement was reached. Did the parties have equal bargaining power during the negotiation stage such that either of them had the power to accept or deny the proposals of the other? Were the terms and conditions of the agreement clearly communicated to both parties? What were the reasons of each party for consenting to the agreement?

It must also be wary of external factors that could have compelled either party to enter into the agreement. There should have been no undue pressure or exigent circumstances that affected the voluntariness of the parties' decision-making process. The Court must ultimately satisfy itself that an agreement was reached which both parties were willing to freely accept and not because they were compelled to do so by reason of force from another person or force of circumstances.<sup>83</sup>

If the Court determines that the agreement was voluntarily agreed upon by all parties who stood on equal footing, it must refrain from intervening out of respect for their civil right to contract. It must be remembered that what may ostensibly seem iniquitous and unconscionable in one case, may be totally just and equitable in another.<sup>84</sup>

This is also in adherence to the fundamental principle that obligations arising from contracts have the force of law between the parties and must be complied with in good faith.<sup>85</sup> Moreover, the "[c]ourts cannot follow one

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<sup>82</sup> *Development Bank of the Philippines v. Family Foods Manufacturing Co., Ltd.*, supra note 71 at 853.

<sup>83</sup> *Vitug v. Abuda*, supra note 67 at 567-568.

<sup>84</sup> *Imperial v. Jaucian*, 471 Phil. 484, 495 (2004).

<sup>85</sup> CIVIL CODE, Article 1308. The contract must bind both contracting parties; its validity or compliance cannot be left to the will of one of them.



every step of his life and extricate him from bad bargains, protect him from unwise investments, relieve him from one-sided contracts, or annul the effects of foolish acts. Courts cannot constitute themselves guardians of persons who are not legally incompetent.”<sup>86</sup>

In this case, the established facts show that Pabalan and Sabnani stood on equal footing when they finalized the loan and executed the REM and PNs.

*Firstly*, it is clear from both parties’ personal circumstances that neither of them was positioned at a disadvantage and required protection from the court. They were both competent and fully capable of understanding all the terms and conditions under the REM and PNs.

Pabalan was a businesswoman based in Manila.<sup>87</sup> Similarly, Sabnani was a British businessman who frequented the Philippines looking for investment opportunities and even had several projects here worth millions of pesos.<sup>88</sup> He admitted that Claparols was one of his business partners intending to invest ₱6,000,000.00 in one of his projects.<sup>89</sup> He likewise owned a prime condominium unit in Makati City worth over sixteen million pesos.

Being an experienced businessman, Sabnani’s claim that he was not fully aware of the terms of the REM and PNs, becomes highly doubtful. There is also a presumption that a person takes ordinary care of his/her concerns and would not sign any document without knowing its contents and consequences.<sup>90</sup> The CA therefore aptly denied his “persistent plea for sympathy that he was taken advantage of, as a foreigner with limited knowledge of the laws.”<sup>91</sup>

*Secondly*, the factual context and background of the parties’ transaction showed that neither Sabnani nor Pabalan was compelled to enter into it. There was no proof that Sabnani was under any external or undue pressure to obtain the loan from Pabalan and execute the REM and PNs in her favor. He did not do it out of dire necessity, nor was he under any financial distress. The money loaned was not necessary for his subsistence or to meet urgent contingencies.

On the contrary, he admitted that it was actually him and Claparols who first approached Pabalan to ask for the loan. No one forced him to take out the loan from Pabalan. There was clearly a free and competitive market for loans

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<sup>86</sup> *De La Paz v. L&J Development Company*, 742 Phil. 420, 430 (2014).

<sup>87</sup> *Rollo*, p. 16.

<sup>88</sup> *Id.* at 108, 243.

<sup>89</sup> *Id.* at 238-239.

<sup>90</sup> *Ruiz v. Court of Appeals*, 449 Phil. 419, 431 (2005).

<sup>91</sup> *Rollo*, p. 62.

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available. He could have easily declined the terms under the REM and PNs and obtained a loan from somebody else. However, he did not do so and voluntarily agreed to these.

*Thirdly*, Sabnani voluntarily agreed to the terms of the loan since he had legitimate business reasons and benefitted from it. In reality, he made business on the amount loaned. The loan was part of a bigger series of transactions which he considered in total beneficial for him to expand his business. He repeatedly alleged that he obtained the loan to accommodate Claparols who would then utilize the proceeds to invest in one of his projects. He did Claparols a favor by agreeing to the loan and mortgage so that he could get the investment money sooner while waiting for the latter's money to be released from New York. He therefore agreed to the loan terms because if everything worked out smoothly according to his plan, Claparols would have been the one to pay off the loan from Pabalan, and he would have received a clean ₱6,000,000.00 from him as an investment.

*Fourthly*, Sabnani's contemporaneous actions during the execution of the loan proved that he had full knowledge of all its terms and conditions when he gave his consent to be bound. He was an experienced businessman who took deliberate and strategic measures to address his liability exposure after he knew and understood the consequences of the rates of interest and penalties imposed. He agreed to execute the loan not because he wasn't aware of its provisions, but because he had already determined the risks involved and believed that he had sufficient measures to shield him from liability.

He repeatedly emphasized that before agreeing to the loan, he demanded Claparols to issue in his favor two BPI checks as securities to protect him from any liabilities that could arise from the transaction. He pertinently alleged under oath in his Amended Complaint:<sup>92</sup>

9. However, plaintiff [Sabnani] wanted to have some form of assurance that the money will be returned to the lender [Pabalan] after a few weeks and that his property would not be exposed to the risk of being acquired by the creditor for a longer period than is necessary.

10. By way of inducing plaintiff to agree to his scheme, CLAPAROLS offered to issue his personal checks to plaintiff in such amounts as may be necessary to cover the loan and to compensate plaintiff in case the latter (sic) is deprived of his property as a consequence of the foreclosure of the real estate mortgage. Thus, CLAPAROLS issued and delivered to plaintiff two BPI checks for ₱8,282,000.00 and ₱21,718,000.00.

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<sup>92</sup> Id. at 108-122.

Photocopies of BPI Check No. 1271400 dated May 28, 1999 for [P]8,282,000.00 and BPI Check No. 12271399 dated July 27, 1999 for [P]21,718,000.00 are hereto attached and marked as Annexes "B" and "C".<sup>93</sup> (Emphasis and underscoring supplied)

The first BPI check was for ₱8,282,000.00 to secure full payment of the loan. This amount is equal to the principal loan, plus all interest payments due, minus the ₱416,000.00 deducted upfront. His demand for this specific security proved that he knew the interest rates imposed and still agreed to it. He merely made a mistake in thinking that he was sufficiently secured from any liability.

Sabnani also demanded for another BPI check for ₱21,718,000.00 which would allegedly cover the value of his mortgaged property in the event that it would be foreclosed. This was notably much higher than his own declared value of ₱16,500,000.00 for his condominium unit.<sup>94</sup> The BPI check was therefore a conservative security after considering the effects of the loan terms and was more than sufficient to cover the legal extent of his liability which would be the winning bid price at the foreclosure sale. This also enabled him to redeem his condominium unit if he chose to and even gain a profit from it.

Hence, it is evident that Sabnani knew and understood all the stipulated terms under REM and PNs. He agreed to these terms as a calculated business risk after receiving what he believed were sufficient securities to protect him from liability. He knew exactly what he was getting into and executed the REM and PNs freely and voluntarily.

*Fifthly*, Sabnani benefitted from the loan and can no longer be permitted to assail its validity. He consistently asserted that the loan proceeds would be used as an investment in one of his projects in the Philippines.<sup>95</sup> It is a general principle in equity that a party who has validly executed a contract and availed of its benefits cannot escape their contractual obligations by seeking to invalidate it.<sup>96</sup>

*Finally*, it is significant that the loan in this case was only a short-term undertaking. Sabnani himself explained that it was merely intended to be an accommodation for Claparols while the latter waited for the release of his money from New York.<sup>97</sup> The remittance was expected in a few weeks after which he would then immediately pay off the loan from Pabalan. The nature of the loan in this case being short-term and not open-ended or applied for an

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<sup>93</sup> Id. at 110.

<sup>94</sup> Id. at 92.

<sup>95</sup> Id. at 109.

<sup>96</sup> *Vitug v. Abuda*, supra note 67 at 544.

<sup>97</sup> *Rollo*, p. 109.

indefinite period of time should have been considered in evaluating the validity and conscionability of the stipulated interest and penalty rates.<sup>98</sup>

All told, no intervention from this Court is necessary in this case in view of its peculiar circumstances. It has been established that the stipulated rates of interest, penalty charges, liquidated damages, and attorney's fees were freely and voluntarily agreed upon by the parties without any indicia of fraud or coercion. Hence, absent any compelling reasons in the interest of equity or justice, this Court will not interfere with the parties' freedom to contract.

Sabnani is bound by all the terms and conditions of the loan, REM, and PNs. The obligations under these contracts have the force of law which he must comply with in good faith.<sup>99</sup>

The stipulated rates of interest, penalty charges, liquidated damages, and attorney's fees in the REM and PNs were therefore legal in this case. The ruling of the CA to reduce these rates is reversed, and the parties are ordered bound to comply with their express written agreement.

Considering that the stipulated rates were legal, Pabalan's winning bid at the foreclosure sale was proper. The RTC finding that her total bid amount correctly applied the imposed rates is affirmed.<sup>100</sup> Necessarily, there is no surplus between Pabalan's winning bid amount at the foreclosure sale and the mortgage debt. The order of the CA requiring her to return such surplus is reversed and set aside.

**WHEREFORE**, the instant Petition for Review on *Certiorari* is **GRANTED**. The Decision dated November 28, 2012 and the Resolution dated February 12, 2014 of the Court of Appeals in CA-G.R. CV No. 91169 are **REVERSED** and **SET ASIDE**. The ruling of the Court of Appeals decreasing the interest and penalty rates, and other damages stipulated between the parties, as well as its order for petitioner Estrella Pabalan to pay Vasudave Sabnani the excess of the bid price, with legal interest, and costs of the sale, are **DELETED**. The Decision dated March 28, 2005 of the Regional Trial Court of Makati City, Branch 59, in Civil Case No. 99-1361, is **REINSTATED**.

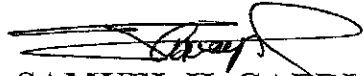
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<sup>98</sup> *Prisma Construction & Development Corporation v. Menchavez*, supra note 75 at 504.

<sup>99</sup> CIVIL CODE, Article 1308.

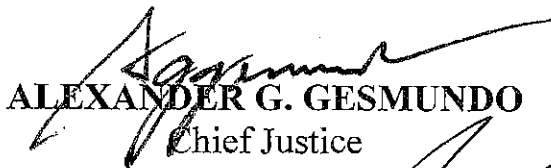
<sup>100</sup> *Rollo*, pp. 193-194.

**SO ORDERED.**



**SAMUEL H. GAERLAN**  
Associate Justice

WE CONCUR:

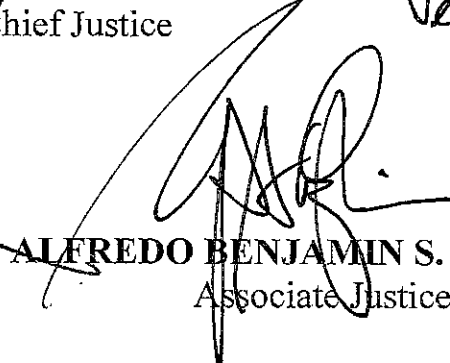


**ALEXANDER G. GESMUNDO**  
Chief Justice

*See Concurs  
Prism*



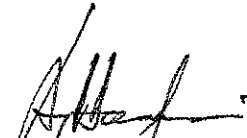
**MARVIC M.V.F. LEONEN**  
Associate Justice



**ALFREDO BENJAMIN S. CAGUIOA**  
Associate Justice



**RAMON PAUL L. HERNANDO**  
Associate Justice



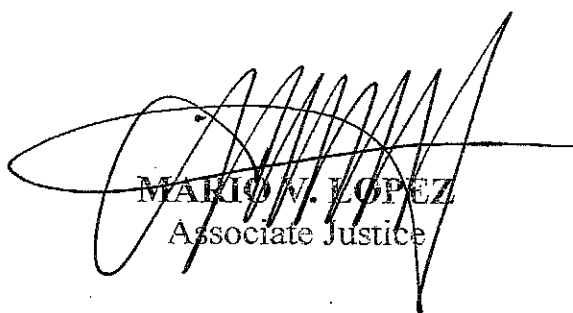
**AMY C. LAZARO-JAVIER**  
Associate Justice



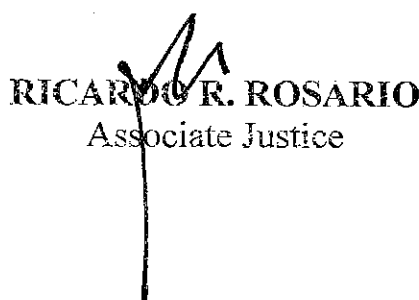
**HENRI JEAN PAUL B. INTING**  
Associate Justice



**RODIL V. ZALAMEDA**  
Associate Justice




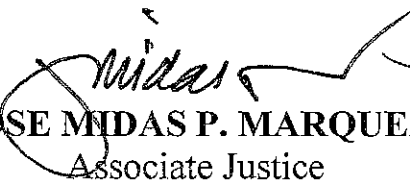
**MARIO V. LOPEZ**  
Associate Justice



**RICARDO R. ROSARIO**  
Associate Justice

  
**JHOSEP Y. LOPEZ**  
Associate Justice

  
**JAPAR B. DIMAAMPAO**  
Associate Justice

  
**JOSE MIDAS P. MARQUEZ**  
Associate Justice

  
**ANTONIO T. KHO, JR.**  
Associate Justice

  
**MARIA FILOMENA D. SINGH**  
Associate Justice

  
**CERTIFICATION**

Pursuant to Section 13, Article VIII of the Constitution, 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.

  
**ALEXANDER G. GESMUNDO**  
Chief Justice

