



Republic of the Philippines
 Supreme Court
 Manila

SUPREME COURT OF THE PHILIPPINES
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SECOND DIVISION

**SPOUSES SERGIO D.
 DOMASIAN AND NENITA F.
 DOMASIAN,**
Petitioners,

G.R. No. 212349

Present:

PERLAS-BERNABE,* S.A.J.,
 HERNANDO,**
 Acting Chairperson,
 INTING,
 GAERLAN, and
 DIMAAMPAO, JJ.

- versus -

MANUEL T. DEMDAM,
Respondent.

Promulgated:
NOV 17 2021

X-----X

DECISION

GAERLAN, J.:

Before this Court is a Petition for Review on *Certiorari*¹ dated June 20, 2014 filed by spouses Sergio D. Domasian (Sergio) and Nenita F. Domasian (petitioners), praying for the reversal of the Decision² dated August 31, 2012 and Resolution³ dated April 22, 2014 of the Court of Appeals (CA) in the case entitled “*Manuel T. Demdam vs. Spouses Sergio Domasian and Nenita Domasian*” docketed as CA-G.R. CV No. 93727.

Factual Antecedents

On October 30, 1995, the petitioners obtained a loan from Manuel T. Demdam (respondent) in the amount of ₱75,000.00. In their loan agreement, the petitioners and the respondent agreed at an interest rate of eight percent (8%) per month, and that the loan shall be paid on or before June 30, 1996.

* On official leave.

** Designated Acting Chairperson per Special Order No. 2855 dated November 10, 2021.

¹ *Rollo*, pp. 26-48.

² *Id.* at 11-19; penned by Associate Justice Jane Aurora C. Lantion with Associate Justices Vicente S. E. Veloso and Eduardo B. Peralta, Jr. concurring.

³ *Id.* at 9-10.

However, when the loan became due and demandable, the petitioners failed to pay the principal amount and its accrued interest, despite several demands.⁴

After several years, or on August 1, 2001, the respondent filed a complaint for collection of sum of money against the petitioners and Gil D. Doniña, in the principal amount of ₱75,000.00 and its accrued interest in the amount of ₱414,000.00 before the Regional Trial Court (RTC) of Pasay City. The case was docketed as Civil Case No. 01-1227.⁵ Subsequently, on August 9, 2001, the respondent filed an amended complaint dropping Gil D. Doniña as one of the defendants.⁶

On August 15, 2001, the RTC, through its Branch Clerk of Court, issued summons on petitioners. Thereafter, the Process Server went to Lot 15, Block 1, Senate Village, Bagumbong, Novaliches, to personally serve the summons on petitioners; however, the Process Server failed to personally serve the same because the petitioners were no longer residing thereat, but have been staying in Naga City for almost two years.⁷

Because the petitioners failed to file an answer to respondent's amended complaint, the respondent filed a Motion to Declare Defendants in Default dated November 8, 2001.⁸

Sometime in the second week of November 2001, petitioner Sergio, an employee of the National Housing Authority (NHA) who was assigned at NHA's Regional Office in Legazpi City, was asked to report to NHA's Main Office in Quezon City. While petitioner Sergio was in Manila, his first cousin informed him of the case filed by the respondent. Since the respondent was treated and respected as the eldest brother in the family, being the husband of petitioner Sergio's eldest sister, petitioner Sergio went to the respondent's house to inquire about the case and to settle it amicably. During their conversation, the respondent told his brother-in-law, petitioner Sergio, to attend the hearing of the case scheduled on November 16, 2001, and afterwards, they would talk about the amicable settlement that petitioner Sergio was proposing.⁹

As agreed, petitioner Sergio attended the hearing on November 16, 2001.¹⁰ Nevertheless, the RTC granted respondent's Motion to Declare

⁴ Id. at 12.

⁵ Id.

⁶ Id. at 31.

⁷ Id.

⁸ Id.

⁹ Id. at 31-32.

¹⁰ Id. at 32.

Defendants in Default in its Order dated January 23, 2002. The RTC likewise directed the respondent to present his evidence *ex parte*.¹¹

After due evaluation of the evidence presented by the respondent, the RTC rendered its Order dated January 14, 2003, ruling in favor of the respondent, and ordering the petitioners to pay the total amount of the loan and its accrued interest, moral damages, exemplary damages, attorney's fees, and costs of the suit.¹²

Notably, the petitioners did not receive a copy of the RTC's Order dated January 23, 2002, which declared them in default. Neither did they receive a copy of the RTC's Order dated January 14, 2003, the judgment by default in favor of the respondent. Thus, on June 6, 2006, the petitioners filed their Petition for Relief from Judgment before the RTC.¹³

On November 14, 2006, the respondent filed his Answer, where he argued that the Petition for Relief from Judgment should be dismissed because it had no merit, and the allegations therein were false. Thereafter, on November 30, 2006, the petitioners filed their Reply, where they emphasized that the rules on service of summons and substituted service were not complied with, as the Process Server failed to serve to them the summons and a copy of respondent's amended complaint.¹⁴ The RTC then set the hearing for the Petition for Relief from Judgment on June 10, 2008.¹⁵

On June 6, 2008, or before the scheduled hearing for the Petition for Relief from Judgment, the petitioners filed a Motion to Dismiss, where they alleged that the RTC had no jurisdiction over the case, since the principal amount being claimed by the respondent is only ₱75,000.00, an amount falling within the jurisdiction of the Metropolitan Trial Court (MeTC).¹⁶

On September 30, 2008, the RTC issued its Decision,¹⁷ granting the petitioners' Petition for Relief from Judgment, as follows:

WHEREFORE, the petition for relief, through a "Motion to Dismiss" filed by petitioners-defendants, being meritorious, is GRANTED, and the Order dated January 14, 2003 is SET ASIDE for lack of jurisdiction, and the respondent-plaintiff's complaint for sum of money is DISMISSED.

¹¹ Id. at 12.

¹² Id. at 12-13.

¹³ Id. at 32-33.

¹⁴ Id. at 33.

¹⁵ Id. at 13.

¹⁶ Id.

¹⁷ Id. at 68-70; penned by Presiding Judge Francisco G. Mendiola.

No costs.

SO ORDERED.¹⁸

The respondent moved for reconsideration of the RTC's Decision, but the same was denied in the RTC's Order dated March 2, 2009.¹⁹

Proceedings before the CA

Aggrieved by the rulings of the RTC, the respondent appealed before the CA *via* Notice of Appeal, where the respondent raised the following assignment of errors:

1. The RTC erred in giving due course to the Petition for Relief from Judgment;
2. The RTC erred in granting the petitioners' Motion to Dismiss; and
3. The RTC erred in ruling that it has no jurisdiction over the respondent's monetary claim in the total amount of ₱489,000.00, representing the principal amount of ₱75,000.00 and the accrued interest in the amount of ₱414,000.00.²⁰

On August 31, 2012, the CA rendered its Decision,²¹ granting respondent's appeal. The CA ruled that in the amended complaint, the respondent prayed for the **total amount of ₱489,000.00**, already inclusive of the interest on the loan which had accrued from 1996. Furthermore, the CA emphasized that **such amount of interest is included in the determination of which court has jurisdiction over the case:**

Consequently, Demdam is claiming and praying for in his *Amended Complaint* the total amount of ₱489,000.00, already inclusive of the interest on the loan which had accrued from 1996. Since the interest on the loan is a **primary and inseparable component of the cause of action**, not merely incidental thereto, and already determinable at the time of filing of the *Amended Complaint*, **it must be included in the determination of which court has the jurisdiction over Demdam's case.** Using as basis the ₱489,000.00 amount being claimed by Demdam from appellees for

¹⁸ Id. at 70.

¹⁹ Id. at 15.

²⁰ Id. at 15-16.

²¹ Id. at 11-19.

payment of the principal loan and interest, this Court finds that it is well within the jurisdiction of the court *a quo*.

Therefore, the court *a quo* erred when it dismissed Demdam's *Amended Complaint* on the ground of lack of jurisdiction on the mistaken assumption that the basis for determining the court's jurisdiction should be the principal amount of the loan, which is P75,000.00.

All told, there can be no doubt that the court *a quo* in this case had jurisdiction to entertain, try, and decide Demdam's *Amended Complaint*.

WHEREFORE, the appeal is **GRANTED**. Consequently, the *Decision* dated September 30, 2008 of the Regional Trial Court of Pasay City, Branch 115, in Civil Case No. 01-1227 is **SET ASIDE** and the *Order* dated January 14, 2003 granting the reliefs prayed for by Demdam in his *Amended Complaint* is hereby **REINSTATED**.²² (Emphasis supplied)

The petitioners moved for the reconsideration of the CA's Decision but the same was denied in the CA's Resolution dated April 22, 2014.²³

The instant Petition

On June 20, 2014, the petitioners filed the instant Petition, where they raised, among others, the following issues:

1. The CA erred in not finding that the respondent's appeal by Notice of Appeal is the wrong mode of appeal as the three issues raised therein are all questions of law;
2. The CA erred in not finding that it has no jurisdiction over the respondent's appeal because the three issues raised in respondent's Appellant's Brief are all questions of law; and
3. The CA erred in its finding that interest is included in the determination of jurisdictional amount.²⁴

On December 16, 2014, the respondent filed his Comment²⁵ to the petition, where he stressed that after 19 years from the time the petitioners obtained the loan, their debt remains unpaid.²⁶ In his comment, the respondent likewise alleged that the CA did not commit any error, considering that

²² Id. at 18.

²³ Id. at 9-10.

²⁴ Id. at 36.

²⁵ Id. at 82-93.

²⁶ Id. at 82.

jurisprudence is clear with respect to the RTC's jurisdiction vis-à-vis his claim in the amount of ₱489,000.00.²⁷

Meanwhile, on June 3, 2015, the petitioners filed their Reply.²⁸ In the Reply, the petitioners reiterated their arguments stating that the RTC does not have jurisdiction over respondent's claim, since the principal amount is only ₱75,000.00.²⁹ Moreover, the petitioners noted that, with respect to the respondent's assertion that the debt remains unpaid, the petitioners actually tried to pay the respondent sometime in 2010, but the respondent unjustly refused to accept the Manager's Check prepared by the petitioners.³⁰

Our Ruling

This Court denies the Petition.

Prefatorily, it bears emphasis that the CA should not take cognizance of appeals which raise purely questions of law. Section 2, Rule 41 of the Rules of Court outlines the modes of appeal of judgments or final orders of the RTC:

Section 2. *Modes of appeal.* —

(a) *Ordinary appeal.* — The appeal to the Court of Appeals in cases decided by the Regional Trial Court in the exercise of its original jurisdiction shall be taken by filing a notice of appeal with the court which rendered the judgment or final order appealed from and serving a copy thereof upon the adverse party. No record on appeal shall be required except in special proceedings and other cases of multiple or separate appeals where law of these Rules so require. In such cases, the record on appeal shall be filed and served in like manner.

(b) *Petition for review.* — The appeal to the Court of Appeals in cases decided by the Regional Trial Court in the exercise of its appellate jurisdiction shall be by petition for review in accordance with Rule 42.

(c) *Appeal by certiorari.* — **In all cases where only questions of law are raised or involved, the appeal shall be to the Supreme Court by petition for review on certiorari in accordance with the Rule 45.**
(Emphasis supplied)

²⁷ Id. at 87-88.

²⁸ Id. at 106-116.

²⁹ Id. at 111.

³⁰ Id. at 107.

Meanwhile, this Court in *Mandaue Realty & Resources Corporation v. Court of Appeals*,³¹ thoroughly explained the difference between questions of law and questions of fact:

A question of law exists when there is doubt or controversy as to what the law is on a certain state of facts, and there is a question of fact when the doubt or difference arises as to the truth or falsehood of facts, or when the query necessarily invites calibration of the whole evidence considering mainly the credibility of witnesses, existence and relevancy of specific surrounding circumstances, their relation to each other and to the whole and probabilities of the situation. No examination of the probative value of the evidence would be necessary to resolve a question of law. The opposite is true with respect to questions of fact.

The test of whether a question is one of law or fact is not the appellation given to such question by the party raising the same. **It is whether the appellate court can determine the issue raised without reviewing or evaluating the evidence and would only limit itself to the inquiry of whether the law was properly applied given the facts and supporting evidence.** Such is a question of law. Otherwise, it is a question of fact.³² (Emphasis supplied; citations omitted)

In this case, the respondent appealed to the CA *via* a Notice of Appeal, raising the following issues:

1. The RTC erred in giving due course to the Petition for Relief from Judgment;
2. The RTC erred in granting the petitioners' Motion to Dismiss; and
3. The RTC erred in ruling that it has no jurisdiction over the respondent's monetary claim in the total amount of ₱489,000.00, representing the principal amount of ₱75,000.00 and the accrued interest in the amount of ₱414,000.00.³³

As correctly pointed out by the petitioners, the aforementioned issues all pertain to **questions of law**. The primordial issue of the case involves the application of the provisions of Batas Pambansa Blg. 129 (BP 129), otherwise known as the Judiciary Reorganization Act of 1980, as amended by Republic Act (R.A.) No. 7691, to determine whether the RTC has jurisdiction over respondent's claim against the petitioners. This ascertainment involves a

³¹ 801 Phil. 27 (2016).

³² *Id.* at 36-37.

³³ *Rollo*, pp. 15-16.

purely legal question, and thus, the dismissal of respondent's appeal before the CA should have been the unavoidable outcome. Indeed, Section 2, Rule 50 of the Rules of Court mandates the appeal's dismissal, viz.:

Section 2. *Dismissal of improper appeal to the Court of Appeals.* — **An appeal under Rule 41 taken from the Regional Trial Court to the Court of Appeals raising only questions of law shall be dismissed, issues purely of law not being reviewable by said court.** Similarly, an appeal by notice of appeal instead of by petition for review from the appellate judgment of a Regional Trial Court shall be dismissed.

An appeal erroneously taken to the Court of Appeals shall not be transferred to the appropriate court but shall be dismissed outright. (Emphasis supplied)

In view of the foregoing, this Court subscribes to the petitioners' view that the CA committed an error when it gave due course and took cognizance of respondent's appeal, considering that the Rules of Court expressly requires that appeals before the CA raising only questions of law shall be dismissed.

Nevertheless, after a careful review of all the submissions of the parties, this Court is constrained to uphold the findings of the CA with respect to the issue of the RTC's jurisdiction and the respondent's monetary claim against the petitioners.

To recall, the petitioners obtained a loan from the respondent in the amount of ₱75,000.00. The parties agreed that the loan will earn interest at the rate of eight percent (8%) per month, and that the loan will mature on June 30, 1996. When petitioners failed to pay despite several demands, the respondent instituted his *Complaint* for sum of money, seeking for the payment of the total amount of **₱489,000.00**, representing the principal amount of ₱75,000.00 and the accrued interest in the amount of ₱414,000.00.

Invariably, to determine whether the RTC has jurisdiction over respondent's claim, the pertinent provisions of BP 129 must be examined. Section 19 thereof provides:

Section 19. *Jurisdiction in civil cases.* — Regional Trial Courts shall exercise exclusive original jurisdiction:

x x x x

(8) In all other cases in which the demand, exclusive of interest, damages of whatever kind, attorney's fees, litigation expenses, and costs or the value of the property in controversy exceeds One hundred thousand pesos (100,000.00) or, in such other abovementioned items exceeds Two

hundred thousand pesos (200,000.00). (Emphasis and underscoring supplied)

Meanwhile, Section 5 of R.A. No. 7691, which became effective on April 15, 1994, reads:

Section 5. After five (5) years from the effectivity of this Act, the jurisdictional amounts mentioned in Sec. 19(3), (4), and (8); and Sec. 33(1) of Batas Pambansa Blg. 129 as amended by this Act, shall be adjusted to **Two hundred thousand pesos (P200,000.00)**. Five (5) years thereafter, such jurisdictional amounts shall be adjusted further to Three hundred thousand pesos (P300,000.00): *Provided, however,* That in the case of Metro Manila, the abovementioned jurisdictional amounts shall be adjusted after five (5) years from the effectivity of this Act to Four hundred thousand pesos (P400,000.00). (Emphasis supplied)

Applying these provisions, it is clear that at the time respondent's Complaint was instituted in 2001, the RTC has jurisdiction for all claims exceeding ₱200,000.00.

Notably, the petitioners, in insisting that the RTC has no jurisdiction, harp on the phrase "exclusive of interest" found in the above-quoted provision of BP 129. According to the petitioners, the accrued interest, in the amount of ₱414,000.00, should not have been included in determining the jurisdictional amount. Considering that the principal amount of the loan is only ₱75,000.00, the petitioners assert that the MeTC has jurisdiction over the respondent's claim, and that the RTC correctly dismissed respondent's amended complaint when it granted petitioners' Petition for Relief from Judgment.

This Court does not agree.

A plain reading of Section 19(8) of BP 129 shows an enumeration of fees or amounts which should not be included in determining the jurisdictional amount. Apart from interests, BP 129 lists (1) damages; (2) attorney's fees; and (3) costs of suit, as excluded from computing the jurisdictional amount. These three items are excluded because, as long as the main cause of action is not one for damages, attorney's fees, and costs of suit are **merely incidental and ancillary** to any claim or cause of action that may be filed. Otherwise stated, without a valid claim or cause of action – a breach of contract for instance – a plaintiff cannot claim for damages, attorney's fees, or costs of suit.

Therefore, it is in this context that the term "interest" as found in BP 129 should be viewed, in accordance with the principle of *ejusdem generis*,

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which was explained in *Benguet State University v. Commission on Audit*,³⁴ in this wise:

Under the principle of *ejusdem generis*, where a statute describes things of a particular class or kind accompanied by words of a generic character, **the generic word will usually be limited to things of a similar nature with those particularly enumerated**, unless there be something in the context of the statute which would repel such inference. x x x.³⁵ (Emphasis supplied)

At this juncture, it must be emphasized that there are generally two types of interest: *first*, monetary interest, and *second*, compensatory interest. As succinctly explained in *Odiamar v. Valencia*:³⁶

At the outset, the Court notes that there are two (2) types of interest, namely, monetary interest and compensatory interest. **Monetary interest** is the compensation fixed by the parties for **the use or forbearance of money**. On the other hand, **compensatory interest** is that **imposed by law or by the courts as penalty or indemnity for damages**. In other words, the right to recover interest arises only either by virtue of a contract (monetary interest) or as damages for the delay or failure to pay the principal loan on which the interest is demanded (compensatory interest). (Emphasis supplied)

With this in mind, it is clear that what the term “interest” found in BP 129 only pertains to **compensatory interest**. Compensatory interest, which as stated above, is a form of penalty or indemnity, and similar to damages, attorney’s fees, and costs of suit, is **merely incidental and ancillary** to a plaintiff’s cause of action. In stark contrast, monetary interest is a **primary and inseparable component of a plaintiff’s cause of action**, considering that it forms part of the total amount due, regardless of any breach of obligation.

Applying all the foregoing in the instant case, it is beyond cavil that the amount of ₱414,000.00 comprises of monetary interest because the parties agreed to the payment of compensation for the use or forbearance of money at the rate of eight percent (8%) per month. This means that the amount of ₱414,000.00 cannot be excluded from the computation of the jurisdictional amount. Indeed, the CA correctly held that the RTC had jurisdiction over the case since the respondent’s monetary claim amounted to **₱489,000.00**, which undeniably falls within the jurisdiction of the RTC.

³⁴ 551 Phil. 878 (2007).

³⁵ Id. at 886-887.

³⁶ G.R. No. 213582, September 12, 2018.

Moreover, it bears emphasis that the ruling in *Gomez v. Montalban*³⁷ (*Gomez*), is squarely applicable to this case.

In *Gomez*, Montalban (the respondent) obtained a loan from Gomez (the petitioner) on August 26, 1998, in the amount of ₱40,000.00, with an interest rate of fifteen percent (15%) per month. As security, Montalban issued a postdated check in the amount of ₱46,000.00, covering the ₱40,000.00 principal loan amount, and ₱6,000.00 as interest for one month. When the loan became due, Montalban failed to pay; thus, Gomez filed a Complaint, praying for the payment of the following:

1. The amount of PhP238,000.00 with interest charges at the sound discretion of the Honorable Court starting on July 4, 2002 until paid in full;
2. The sum equivalent to 25% of the amount awarded as attorney's fee;
3. Cost of suit;
4. Other relief that the Honorable Court may find just and equitable under the premises are likewise prayed for.³⁸

After evaluation of the evidence, the RTC rendered a Decision in favor of Gomez. However, Montalban subsequently filed a Petition for Relief from Judgment, alleging, among others, that the RTC did not have jurisdiction over the case considering that the principal amount being claimed by Gomez was only ₱40,000.00, an amount falling within the jurisdiction of the Municipal Trial Court.

The case eventually reached this Court, which was tasked to resolve whether the RTC had jurisdiction over Gomez's claim. In answering in the affirmative, this Court reasoned as follows:

The Court gleans from the foregoing that petitioner's cause of action is the respondent's violation of their loan agreement. In that loan agreement, respondent expressly agreed to pay the principal amount of the loan, plus 15% monthly interest. **Consequently, petitioner is claiming and praying for in his Complaint the total amount of P238,000.00, already inclusive of the interest on the loan which had accrued from 1998. Since the interest on the loan is a primary and inseparable component of the cause of action, not merely incidental thereto, and already determinable at the time of filing of the Complaint, it must be included in the determination of which court has the jurisdiction over petitioner's case.** Using as basis the P238,000.00 amount being claimed by

³⁷ 572 Phil. 460 (2008).

³⁸ Id. at 468.

petitioner from respondent for payment of the principal loan and interest, this Court finds that it is well within the jurisdictional amount fixed by law for RTCs.

There can be no doubt that the RTC in this case has jurisdiction to entertain, try, and decide the petitioner's Complaint.³⁹ (Emphasis supplied; citations omitted)

In view of the foregoing jurisprudential pronouncement, it is undeniable that the RTC in this case, too, has jurisdiction to resolve and render judgment as to the respondent's claim against the petitioners.

While the principal amount of the loan is only ₱75,000.00, the accrued interest of ₱414,000.00, which is a primary and inseparable component of the principal amount, and which is already determinable at the time the respondent filed his Complaint, was properly included in the computation of the jurisdictional amount. All in all, this Court finds that the CA did not commit any error when it ruled that respondent's claim falls within the jurisdiction of the RTC.

However, this Court deems it imperative to note that the eight percent (8%) monthly interest stipulated by the parties is unconscionable and should be struck down. As held in *De La Paz v. L & J Development Company*:⁴⁰

[N]ot all interest rates levied upon loans are permitted by the courts as **they have the power to equitably reduce unreasonable interest rates.** In *Trade & Investment Development Corporation of the Philippines v. Roblett Industrial Construction Corporation*, we said:

While the Court recognizes the right of the parties to enter into contracts and who are expected to comply with their terms and obligations, this rule is not absolute. **Stipulated interest rates are illegal if they are unconscionable and the Court is allowed to temper interest rates when necessary.** In exercising this vested power to determine what is iniquitous and unconscionable, the Court must consider the circumstances of each case. What may be iniquitous and unconscionable in one case, may be just in another. x x x

Time and again, it has been ruled in a plethora of cases that **stipulated interest rates of 3% per month and higher, are excessive, iniquitous, unconscionable and exorbitant. Such stipulations are void for being contrary to morals, if not against the law.** The Court, however, stresses that these rates shall be invalidated and shall be reduced only in cases where the terms of the loans are open-ended, and where the interest

³⁹ Id. at 469.

⁴⁰ 742 Phil. 420 (2014).

rates are applied for an indefinite period. Hence, the imposition of a specific sum of P40,000.00 a month for six months on a P1,000,000.00 loan is not considered unconscionable. In the case at bench, there is no specified period as to the payment of the loan. Hence, levying 6% monthly or 72% interest *per annum* is “definitely outrageous and inordinate.”⁴¹ (Emphasis supplied; citations omitted)

As to what interest rate should therefore apply when the stipulated interest is deemed unconscionable, the ruling in *Spouses Abella v. Spouses Abella*⁴² (*Spouses Abella*), is instructive:

Even if it can be shown that the parties have agreed to monthly interest at the rate of 2.5%, this is unconscionable. As emphasized in *Castro v. Tan*, the willingness of the parties to enter into a relation involving an unconscionable interest rate is inconsequential to the validity of the stipulated rate:

The imposition of an unconscionable rate of interest on a money debt, even if knowingly and voluntarily assumed, is immoral and unjust. **It is tantamount to a repugnant spoliation and an iniquitous deprivation of property, repulsive to the common sense of man. It has no support in law, in principles of justice, or in the human conscience nor is there any reason whatsoever which may justify such imposition as righteous and as one that may be sustained within the sphere of public or private morals.**

The imposition of an unconscionable interest rate is void *ab initio* for being “contrary to morals, and the law.”

x x x x

Petitioners here insist upon the imposition of 2.5% monthly or 30% annual interest. Compounded at this rate, respondents’ obligation would have more than doubled — increased to 219.7% of the principal — by the end of the third year after which the loan was contracted if the entire principal remained unpaid. By the end of the ninth year, it would have multiplied more than tenfold (or increased to 1,060.45%). In 2015, this would have multiplied by more than 66 times (or increased to 6,654.17%). Thus, from an initial loan of only P500,000.00, respondents would be obliged to pay more than P33 million. This is grossly unfair, especially since up to the fourth year from when the loan was obtained, respondents had been assiduously delivering payment. This reduces their best efforts to satisfy their obligation into a protracted servicing of a rapacious loan.

The legal rate of interest is the presumptive reasonable compensation for borrowed money. While parties are free to deviate from this, any deviation must be reasonable and fair. Any deviation that is far-

⁴¹ Id. at 430-431.

⁴² 763 Phil. 372 (2015).

removed is suspect. Thus, in cases where stipulated interest is more than twice the prevailing legal rate of interest, it is for the creditor to prove that this rate is required by prevailing market conditions. Here, petitioners have articulated no such justification.

In sum, Article 1956 of the Civil Code, read in light of established jurisprudence, prevents the application of any interest rate other than that specifically provided for by the parties in their loan document or, in lieu of it, the legal rate. Here, as the contracting parties failed to make a specific stipulation, the legal rate must apply. **Moreover, the rate that petitioners adverted to is unconscionable. The conventional interest due on the principal amount loaned by respondents from petitioners is held to be 12% per annum.**⁴³ (Emphasis supplied; citations omitted)

In this case, considering that the eight percent (8%) monthly interest rate is clearly unconscionable, the same should be struck down, and should be substituted with the legal rate of interest prevailing at the time the petitioners and the respondent entered into their loan agreement in 1995, which is twelve percent (12%) *per annum*.

Thus, the monetary interest rate of twelve percent (12%) *per annum* shall be imposed upon the principal loan obligation of the petitioners to the respondent. Since there was an extrajudicial demand before respondent's Complaint was filed, interest on the principal amount due begins to run, not from the filing of the Complaint, but from the date of such extrajudicial demand. In other words, the unpaid principal obligation of ₱75,000.00 shall earn twelve percent (12%) interest *per annum* reckoned from the date of extrajudicial demand on June 30, 1996, until the finality of this ruling.

Furthermore, the twelve percent (12%) interest *per annum* due on the principal amount shall likewise earn legal interest at the rate of twelve percent (12%) *per annum* from the date of judicial demand on August 1, 2001 until June 30, 2013, and thereafter at the rate of six percent (6%) *per annum* from July 1, 2013 until finality of this ruling, in accordance with this Court's ruling in *Spouses Abella*:

Apart from respondents' liability for conventional interest at the rate of 12% per annum, outstanding conventional interest — if any is due from respondents — shall itself earn legal interest **from the time judicial demand was made** by petitioners, *i.e.*, on July 31, 2002, **when they filed their Complaint**. This is consistent with Article 2212 of the Civil Code, which provides:

Art. 2212. Interest due shall earn legal interest from the time it is **judicially demanded**, although the obligation may be silent upon this point.

⁴³ Id. at 388-390.

So, too, *Nacar* states that “the interest due shall itself earn legal interest from the time it is judicially demanded.”

Consistent with *Nacar*, as well as with our ruling in *Rivera v. Spouses Chua*, the interest due on conventional interest shall be at the rate of 12% per annum from July 31, 2002 to June 30, 2013. Thereafter, or starting July 1, 2013, this shall be at the rate of 6% per annum.⁴⁴ (Emphasis supplied; citations omitted)

While this Court is aware of the fact that the petitioners attempted to tender payment to the respondent sometime in 2010, this Court finds that such tender of payment is insufficient to suspend the accrual of interest on their loan obligation, considering that the petitioners failed to make a valid consignation. As held in *Spouses Bonrostro v. Spouses Luna*:⁴⁵

Tender of payment “is the manifestation by the debtor of a desire to comply with or pay an obligation. If refused without just cause, the tender of payment will discharge the debtor of the obligation to pay but only after a valid consignation of the sum due shall have been made with the proper court.” “Consignation is the deposit of the [proper amount with a judicial authority] in accordance with rules prescribed by law, after the tender of payment has been refused or because of circumstances which render direct payment to the creditor impossible or inadvisable.”

“Tender of payment, without more, produces no effect.” “[T]o have the effect of payment and the consequent extinguishment of the obligation to pay, the law requires the companion acts of tender of payment and consignation.”

As to the effect of tender of payment on interest, noted civilist Arturo M. Tolentino explained as follows:

When a tender of payment is made in such a form that the creditor could have immediately realized payment if he had accepted the tender, followed by a prompt attempt of the debtor to deposit the means of payment in court by way of consignation, the accrual of interest on the obligation will be suspended from the date of such tender. **But when the tender of payment is not accompanied by the means of payment, and the debtor did not take any immediate step to make a consignation, then interest is not suspended from the time of such tender.** x x x⁴⁶ (Underscoring supplied; emphasis in the original; citations omitted)

As a final note, this Court acknowledges that the RTC’s Order dated January 14, 2003, as affirmed by the CA, likewise directed the petitioners to pay the respondent moral damages, exemplary damages, attorney’s fees, and

⁴⁴ Id. at 390.

⁴⁵ 715 Phil. 1 (2013).

⁴⁶ Id. at 13-14.

costs of suit. However, this Court finds it improper to award the respondent moral and exemplary damages.

In *Arco Pulp and Paper Co., Inc. v. Lim*,⁴⁷ this Court ruled that moral damages are recoverable in cases of breach of contract only when there is fraud or bad faith:

Under Article 2220 of the Civil Code, moral damages may be awarded **in case of breach of contract where the breach is due to fraud or bad faith:**

Art. 2220. Willfull injury to property may be a legal ground for awarding moral damages if the court should find that, under the circumstances, such damages are justly due. The same rule applies to breaches of contract where the defendant acted fraudulently or in bad faith.

Moral damages are not awarded as a matter of right but only after the party claiming it proved that **the breach was due to fraud or bad faith.** As this court stated:

Moral damages are not recoverable simply because a contract has been breached. **They are recoverable only if the party from whom it is claimed acted fraudulently or in bad faith or in wanton disregard of his contractual obligations. The breach must be wanton, reckless, malicious or in bad faith, and oppressive or abusive.**⁴⁸ (Emphasis supplied; citation omitted)

Similarly, in *Timado v. Rural Bank of San Jose, Inc.*,⁴⁹ it was ruled that the grant of exemplary damages also requires fraud or bad faith:

Exemplary or corrective damages are imposed by way of example or correction for the public good, in addition to moral, temperate, liquidated, or compensatory damages. The award of exemplary damages is allowed by law as a warning to the public and as a deterrent against the repetition of socially deleterious actions.

The requirements for an award of exemplary damages to be proper are as follows:

First, they may be imposed by way of example or correction **only in addition**, among others, to compensatory damages, and cannot be recovered as a matter of right, their determination depending upon the amount of compensatory damages that may be awarded to the claimant.

⁴⁷ 737 Phil. 133 (2014).

⁴⁸ Id. at 147-148.

⁴⁹ 789 Phil. 453 (2016).

Second, the claimant must first establish his right to moral, temperate, liquidated, or compensatory damages.

And third, the wrongful act must be accompanied by bad faith; and the award would be allowed only if the guilty party acted in a wanton, fraudulent, reckless, oppressive, or malevolent manner.⁵⁰ (Underscoring supplied; citations omitted)


Considering the foregoing, the respondent is not entitled to the award of moral and exemplary damages, given the lack of bad faith or fraud on the part of the petitioners.

WHEREFORE, the instant Petition for Review on *Certiorari* dated June 20, 2014 filed by petitioners Spouses Sergio D. Domasian and Nenita F. Domasian is **DENIED**. The Decision dated August 31, 2012 and the Resolution dated April 22, 2014 of the Court of Appeals in CA-G.R. CV No. 93727, as well as the Order dated January 14, 2003 of the Regional Trial Court, Branch 115 of Pasay City are **AFFIRMED**, but **MODIFIED** as follows:

1. Petitioners Spouses Sergio D. Domasian and Nenita F. Domasian are **ORDERED** to pay respondent Manuel Demdam:
 - (a) ₱75,000.00 representing the principal loan obligation;
 - (b) Monetary interest on the principal loan obligation at the rate of twelve percent (12%) *per annum* from the date of default, *i.e.*, extrajudicial demand on June 30, 1996, until the finality of this ruling;
 - (c) Compensatory interest on the monetary interest as stated in letter (b) at the rate of twelve percent (12%) *per annum* from judicial demand, *i.e.*, August 1, 2001, to June 30, 2013, and thereafter, at the rate of six percent (6%) *per annum* from July 1, 2013 until the finality of this ruling; and
 - (d) Legal interest at the rate of six percent (6%) *per annum* imposed on the sums due in letters (a), (b), and (c) from finality of this ruling until full payment; and
2. The award for moral and exemplary damages in favor of respondent is **DELETED**.


⁵⁰ Id. at 459.


SO ORDERED.



SAMUEL H. GAERLAN
Associate Justice

WE CONCUR:

(On official leave)
ESTELA M. PERLAS-BERNABE
Senior Associate Justice

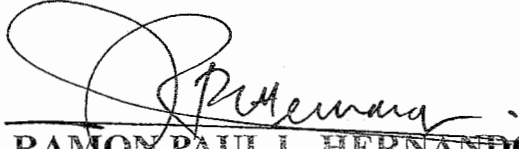

RAMON PAUL L. HERNANDO
Associate Justice


HENRI JEAN PAUL B. INTING
Associate Justice


JAPAR B. DIMAAMPAO
Associate Justice

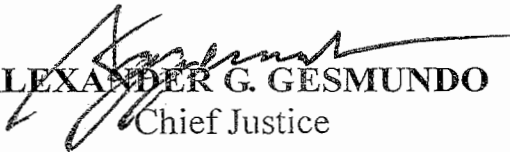
ATTESTATION

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.


RAMON PAUL L. HERNANDO
Associate Justice
Acting Chairperson, Second Division

CERTIFICATION

Pursuant to Section 13, Article VIII of the Constitution and the Division Acting 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