Republic of the Philippines
Supreme Court
Manila

SECOND DIVISION

UNIFIED FINANCING CORP., Petitioner, -versus- **SPOUSES JUAN and ESTELITA G. TOLENTINO, and SPOUSES JAMES AND LIWAYWAY G. TOLENTINO,** Respondents.	**G.R. No. 271304** **Present:** LEONEN, *SAJ.*, *Chairperson*, LAZARO-JAVIER, LOPEZ, M., LOPEZ, J., and KHO, JR., *JJ.* **Promulgated:** FEB 24 2025

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DECISION

LOPEZ, J., *J.*:

This Court resolves the Verified Petition[1] under Rule 65 of the Rules of Court filed by Unified Financing Corp. (UFC), assailing the Decision[2] and Resolution[3] of the Court of Appeals (CA), which upheld the Decision[4] and Order[5] of the Regional Trial Court (RTC). The RTC dismissed UFC's Complaint for sum of money against respondents.[6]

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1 *Rollo*, pp. 9–33.

2 *Id.* at 44–53. The March 15, 2023 Decision in CA-G.R. CV No. 117139 was penned by Associate Justice Geraldine C. Fiel-Macaraig and concurred in by Associate Justices Apolinario D. Bruselas, Jr. and Jennifer Joy C. Ong of the Fifth Division, Court of Appeals, Manila.

3 *Id.* at 55–56. The September 14, 2023 Resolution in CA-G.R. CV No. 117139 was penned by Associate Justice Geraldine C. Fiel-Macaraig and concurred in by Associate Justices Apolinario D. Bruselas, Jr. and Jennifer Joy C. Ong of the Former Fifth Division, Court of Appeals, Manila.

4 RTC records, pp. 131–135. The December 19, 2019 Decision in Civil Case No. 15376 was penned by Judge Omar T. Viola, Branch 57, Regional Trial Court, Angeles City.

5 *Id.* at 147–151. The December 10, 2020 Order in Civil Case No. 15376 was penned by Judge Omar T. Viola, Branch 57, Regional Trial Court, Angeles City.

6 *Id.* at 135.

UFC filed a Complaint for a sum of money against spouses Juan and Estelita Tolentino (spouses Juan and Estelita), and spouses James and Liwayway Tolentino (spouses James and Liwayway) (collectively, Tolentinos) before the RTC of Angeles City, Pampanga.[7]

The case originated from two loans obtained by spouses James and Liwayway from Juan, as evidenced by two notarized promissory notes: (1) a loan of PHP 970,184.00 dated August 25, 2003, with a maturity date of February 20, 2004, and an interest rate of 25% per annum;[8] and (2) a second loan of PHP 1,082,340.00 dated October 27, 2003, payable by April 24, 2004, with the same interest rate.[9]

Subsequently, Juan executed Assignment Contracts with a Warranty of Soundness, transferring his rights over the promissory notes to UFC.[10]

After partial payments amounting to PHP 200,000.00 were made on the first loan,[11] they failed to pay the remaining obligation, and entirely defaulted on the second loan. UFC sent demand letters,[12] which were ignored, prompting the filing of the Complaint.[13]

In their Answer with Counterclaim[14] spouses James and Liwayway denied the obligations,[15] and alternatively sought the dismissal of the case on the ground of prescription.[16] As for spouses Juan and Estelita, the RTC declared them in default for failure to submit a responsive pleading despite receipt of summons.[17] However, upon motion of spouses Juan and Estelita, the Order was lifted and their Answer with Counterclaim[18] was admitted by the RTC.[19] Spouses Juan and Estelita then raised defenses identical to those of spouses James and Liwayway.[20]

The allegations of spouses James and Liwayway and spouses Juan and Estelita, with respect to the promissory notes and assignment contracts, are reproduced below:

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7 *Id.* at 2–5.
8 *Id.* at 9.
9 *Id.* at 10.
10 *Id.* at 11.
11 *Id.* at 3, 13.
12 *Id.* at 13–16.
13 *Id.* at 2–5.
14 *Id.* at 32–37.
15 *Id.* at 32–33.
16 *Id.* at 33–35.
17 *Id.* at 31.
18 *Id.* at 47–52.
19 *Id.* at 56.
20 *Id.* at 47–52.

> 1. Defendants MR. AND MRS. JAMES G. TOLENTINO deny the allegations in paragraphs 3, 4, and 5 of the complaint for lack of personal knowledge and contrary to human practice and experience. Defendants MR. AND MRS. JAMES G. TOLENTINO did not borrow money from SPOUSES JUAN AND ESTELITA TOLENTINO. If ever they borrowed money from them, being brothers and sisters-in-law, they do not require written documents. With more reason, that they will [sic] borrow money and use pro forma promissory notes of the plaintiff. In addition, granting that they borrowed money from each other, there is no known reason for them to assign it to the plaintiff. If there [sic] intention is to borrow money from the plaintiff, then they will go directly to the plaintiff and there is no reason for them to resort to such scheme. These sequences of event cast doubt to the truthfulness of the money obligation being collected from the defendants. Lastly, there is no consideration to the alleged contract of loan. Granting that they assigned their respective indebtedness to the plaintiff, they did not receive any consideration, in cash or in kind. The defendants did not benefit from the proceeds of the loan which in truth and in fact are loan and only in paper; hence, they could not be held liable to pay to [a] non-existent obligation.[21]
>
> 2. Defendants MR. AND MRS. JUAN G. TOLENTINO deny the allegations in paragraphs 3, 4, and 5 of the complaint for lack of personal knowledge and contrary to human practice and experience. Defendants MR. AND MRS. JAMES G. TOLENTINO did not borrow money from SPOUSES JUAN AND ESTELITA TOLENTINO. If ever they borrowed money from them, being brothers and sisters-in-law, they do not require written documents. With more reason, that they will [sic] borrow money and use pro forma promissory notes of the plaintiff. In addition, granting that they borrowed money from each other, there is no known reason for them to assign it to the plaintiff. If there [sic] intention is to borrow money from the plaintiff, then they will go directly to the plaintiff and there is no reason for them to resort to such scheme. These sequences of event cast doubt to the truthfulness of the money obligation being collected from the defendants. Lastly, there is no consideration to the alleged contract of loan. Granting that they assigned their respective indebtedness to the plaintiff, they did not receive any consideration, in cash or in kind. The defendants did not benefit from the proceeds of the loan which in truth and in fact are loan only in paper; hence, they could not be held liable to pay to [a] non-existent obligation[.][22]

Pre-trial and trial ensued. When UFC rested its case, it filed a Formal Offer of Evidence, which included photocopies of the following documents: (1) two notarized Promissory Notes; (2) two notarized Assignment Contracts with Warranty of Soundness; and (3) two sets of Demand Letters separately addressed to each pair of spouses.[23] The Tolentinos also offered various documents in support of their defenses.[24]

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21 *Id.* at 32.
22 *Id.* at 47–48.
23 *Id.* at 47–52; *rollo*, p. 46.
24 RTC records, pp. 131–133.

In its Decision,[25] the RTC dismissed UFC's Complaint, holding that UFC failed to prove its cause of action by preponderance of evidence. The RTC ruled that UFC's failure to submit the original promissory notes in its formal offer warranted the dismissal, as photocopies were deemed to have no probative value.[26] The Tolentinos' counterclaims were also dismissed for lack of evidence.[27]

UFC filed a Motion for Reconsideration,[28] attaching the original copies of its documentary exhibits. The RTC denied the motion in an Order[29] affirming its previous ruling.

UFC appealed to the CA, arguing that the RTC erred in dismissing the case due to the absence of original documents in the Formal Offer of Evidence. UFC emphasized that the Tolentinos failed to specifically deny the actionable documents under oath, which would result in the documents being admitted as to their due execution and genuineness. Alternatively, UFC argued that the documents were properly marked, identified, and formally offered, and any procedural lapses were cured with the submission of the original documents in the Motion for Reconsideration.[30]

In its Decision, the CA upheld the RTC's ruling affirming that UFC's failure to submit original documents upon formal offer was fatal to its case. It held that the original documents were necessary, particularly since UFC's cause of action stemmed from those documents.[31] UFC's appeal was denied, and the RTC's Decision was affirmed in its entirety.[32] UFC's Motion for Reconsideration[33] was also denied in a CA Resolution.[34]

Hence, UFC filed the instant Petition.

Issue

The issue to be resolved in this case is whether the failure to submit original copies of actionable documents in its formal offer warranted the dismissal of its Complaint.[35]

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25 *Id.* at 131–135.
26 *Id.* at 133–134.
27 *Id.* at 134.
28 *Id.* at 136–142.
29 *Id.* at 147–151.
30 *Rollo*, p. 48.
31 *Id.* at 51–52.
32 *Id.* at 52.
33 *Id.* at 102–107.
34 *Id.* at 55–56.
35 *Id.* at 18–31.

This Court's Ruling

The Petition has merit.

As a preliminary matter, UFC is challenging the final decision of the CA by invoking Rule 65 when the proper remedy should have been an appeal under Rule 45. Consequently, the Petition should have been dismissed outright due to petitioner's failure to avail of the correct procedural remedy. While a petition for *certiorari* is generally unavailable when the period for appeal has already lapsed, exceptions exist, such as when the assailed order constitutes an oppressive exercise of judicial authority.[36] In the interest of substantial justice, this Court finds it proper to relax procedural rules in this instance to underscore that, notwithstanding the procedural defect, the present Petition is imbued with merit.[37]

In this case, there is no dispute that the notarized promissory notes and notarized assignment contracts are actionable documents as defined in Rule 8, Section 7 of the Rules of Court.[38] UFC's Complaint for sum of money was precisely filed to enforce the alleged loan obligations of Spouses James and Liwayway in favor of Juan, who later assigned the credit to UFC. Thus, had the Tolentinos sought to challenge the genuineness and due execution of the actionable documents, they were required to contest these documents in accordance with the manner provided under Rule 8, Section 8 of the Rules of Court:

> SECTION 8. *How to Contest Such Documents.* — When an action or defense is founded upon a written instrument, or attached to the corresponding pleading as provided in the preceding section, the genuineness and due execution of the instrument shall be deemed admitted unless the adverse party, under oath specifically denies them, and sets forth what he claims to be the facts; but the requirement of an oath does not apply when the adverse party does not appear to be a party to the instrument or when compliance with an order for an inspection of the original instrument is refused.

From the foregoing, the genuineness and due execution of an actionable document are deemed admitted unless specifically denied under oath. The denial must meet the following criteria: (1) it must be specific—the adverse party must directly and unambiguously deny the genuineness and due execution of the document; (2) it must be under oath; and (3) it must set forth

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36 *Martillano v. Court of Appeals*, 477 Phil. 226, 234–235 (2004) [Per J. Ynares-Santiago, First Division].

37 *Associate Anglo-American Tobacco Corporation v. Court of Appeals*, 633 Phil. 266, 273 (2010) [Per J. Del Castillo, Second Division].

38 SECTION 7. *Action or Defense Based on Document.* — Whenever an action or defense is based upon a written instrument or document, the substance of such instrument or document shall be set forth in the pleading, and the original or a copy thereof shall be attached to the pleading as an exhibit, which shall be deemed to be a part of the pleading.

what the party claims to be the facts—the adverse party must not only deny the genuineness and due execution but must also assert their version of the relevant facts.

Here, it is evident that the Tolentinos's averments do not properly and specifically deny the due execution and genuineness of the promissory notes and assignment contracts as required by Rule 8, Section 8 of the Rules of Court.

First, the Tolentinos failed to directly contest the genuineness and due execution of the promissory notes and the assignment contracts. There is no explicit claim that the actionable documents were forged, falsified, or otherwise not genuine. The allegations focus instead on attacking the enforceability or plausibility of the transaction, not the authenticity or proper execution of the documents. The averments also do not provide any factual allegations that might reasonably challenge the execution of the documents, such as claims of forgery, duress, or lack of authority.

Second, it cannot be considered a denial if their allegations precisely admit the existence of the actionable documents. By stating that the loan is "only in paper,"[39] the Tolentinos effectively acknowledged the existence of the promissory notes and assignment contracts, which seriously undermines any claim that these documents are not genuine or duly executed. Further, their alternative defenses—first denying the loan entirely, then arguing about the lack of consideration or plausibility of the transaction—are logically inconsistent. This lack of clarity and cohesion in their arguments weakens any purported denial of the documents.

Finally, the Tolentinos's denial focused on substantive defenses and not on challenging the genuineness and due execution of the documents. To be clear, arguments on the alleged absence of consideration for the loan or the assignments are defenses that even presuppose the validity and execution of the documents and do not invalidate them.

Consequently, by failing to specifically deny the promissory notes and assignment contracts, the Tolentinos have effectively admitted the genuineness and due execution of these documents.

Beyond the Tolentinos's failure to properly deny the actionable documents, their own pleadings and testimony further solidify UFC's case. In a motion, spouses Juan and Estelita admitted the existence of the loan, albeit alleging that they had already settled the obligation, and that UFC should solely pursue spouses James and Liwayway instead. This admission was made

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[39] RTC records, pp. 32, 47–48.

evident in their Motion for Reconsideration,[40] filed in response to the RTC's Order[41] declaring them in default, where they stated:

> With all humility, the defendants did not attend the hearing on April 2, 2014 and oppose the motion to declare them in default or filed their answer to the complaint within the reglamentary [sic] period because they were advised by the plaintiff to just pay the obligation. Indeed[,] they met with the complainant's representative and settled their monetary obligation. As a result, a notice of dismissal of complaint was filed by plaintiff's counsel in civil case no. 15375;[42]
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> All the while they were expecting that they [were] already relieved of any financial commitment to the plaintiff. It is only now when they received the said Order of default and allowing the plaintiff to present evidence exparte against them that they realized that they are being made to answer again for the alleged obligation of Spouses James G. Tolentino and Liwayway A. Tolentino.[43]

The above acknowledgment of the existence of the loan constitutes a clear judicial admission. Their contention that they had already paid the obligation merely serves to limit the issues for trial to whether such payment was indeed made. However, it does not negate their acknowledgment of the loan's existence.

The language of their Motion for Reconsideration further reveals their reliance on the premise that they had met with UFC's representative and resolved their monetary obligation. Their expectation of being relieved of any financial commitment strengthens the conclusion that the loan's existence was never in dispute. Instead, the core issue they raised pertains to the alleged satisfaction of that obligation. Accordingly, this judicial admission forecloses any subsequent attempt to deny the existence of the loan, regardless of their later contradictory assertions.

Even without the explicit admission made by spouses Juan and Estelita in their Motion for Reconsideration to the RTC's Order of Default, there exists a preponderance of evidence supporting the claim that spouses James and Liwayway entered into contracts of loan with UFC as the creditor. James's testimony on cross and redirect examination reveals the nature and frequency of his dealings with UFC:

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40 RTC records, pp. 38–41.

41 *Id.* at 31. The April 2, 2014 Order in Civil Case No. 15376 was penned by Acting Judge Mary Anne P. Padron-Rivera of Branch 58, Regional Trial Court, Angeles City.

42 TSN, James Tolentino, October 23, 2017, p. 6.

43 RTC records, p. 38.

[Atty Calilung]

Q By the way, under what circumstance you were [sic] able to know the plaintiff?

A I was able to know Unified Financing Corp., because I was previously a client of the same, sir.

Q Can you tell the court, at least what year were you able to know Unified Financing Corp.?

A I could no longer remember, sir.

[The Court]

Counsel, are we now talking of number 2 in the calendar or number 4?

[Atty. Calilung]

Number 2, Civil Case No. 15376 as called by the interpreter, Your Honor.

[The Court]

The case against Sps. Juan and Estelita Tolentino and Sps. James & Liwayway Tolentino?

[Atty. Calilung]

Yes, Your Honor.

[Atty. Martinez]

We have already dropped the case against James Tolentino. We have already executed a. . . (interrupted)

[Atty. Calilung]

I would like to clarify that, Your Honor. In Civil case No. 15373, the defendants are only two. . . The Sps. James and Liwayway Tolentino and as for 15376, there are two sets of defendants.

[The Court]

Okay. Continue, counsel.

[Atty. Calilung]

Q Can you say it is more than ten years ago?

A More than [10] years, sir.

Q [Fifteen] years ago?

A It is not far from that, sir.

Q Can you recall how many times you transacted with Unified Financing Corp.?

[Atty. Martinez]

May we know what kind of transaction, Your Honor?

[Atty. Calilung]

Any kind of transaction. This is a financing corporation, so pertaining to financing transactions, Your Honor.

[The Witness]

A We had a lot of transactions, sir.

. . . .

[Atty. Martinez]

Q Mr. Witness, during your cross examination, you were asked about transaction (sic) with the plaintiff Unified Financing Corp., correct?

A Yes, sir.

Q The transactions refers (sic) to loan of money?

A Yes, sir. Those previous transactions, sir.[44]

James's testimony, while not directly addressing the specific loans in question, has probative value. His acknowledgment of numerous prior transactions with UFC establishes a pattern of dealing and supports the plausibility of the current loan agreement. This testimony, coupled with the Tolentinos's failure to properly deny the documents and their explicit admission in the Motion for Reconsideration, provides strong evidence of the loans' existence and validity.

Thus, it is difficult to reconcile how, despite the admission and testimony of the Tolentinos above, coupled with the failure of both pairs of spouses to properly contest the actionable documents, the promissory notes and assignment contracts were nonetheless not given any weight. This conclusion is rendered even more tenuous by the fact that it hinged solely on the absence of original documents in the Formal Offer of Evidence.[45]

To be sure, the RTC's reliance on the best evidence rule to deny probative value to the photocopies is misplaced. As this Court has held in *The*

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44 TSN, James Tolentino, October 23, 2017, pp. 5–8.

45 RTC records, pp. 133–134.

Consolidated Bank and Trust Corp. v. Del Monte Motor Works, Inc.,[46] when an actionable document is deemed admitted, the best evidence rule no longer applies, rendering the presentation of original documents unnecessary:

> Significantly, and as discussed earlier, respondents failed to deny specifically the execution of the promissory note. This being the case, there was no need for petitioner to present the original of the promissory note in question. Their judicial admission with respect to the genuineness and execution of the promissory note sufficiently established their liability to petitioner regardless of the fact that petitioner failed to present the original of said note.
>
> Indeed, when the defendant fails to deny specifically and under oath the due execution and genuineness of a document copied in a complaint, the plaintiff need not prove that fact as it is considered admitted by the defendant.[47] (Citations omitted)

The above principle applies directly to the present case. Because the Tolentinos failed to specifically deny the execution and genuineness of the promissory notes and assignment contracts, they are deemed admitted. Therefore, under the precedent set in *Consolidated Bank*, UFC was not required to present the originals, and the RTC erred in discounting the photocopies on this basis.

The RTC's handling of the case, particularly its misapplication of the rules on admissibility and probative value, not only contravenes established jurisprudence but also undermines the integrity of judicial proceedings. This Court has previously characterized errors of this nature as constituting grave abuse of discretion:

> The Court takes this opportunity to now enjoin all courts to rule on the admissibility of each and every piece of evidence brought before them as soon as they are offered and objected to, and to refrain from deferring the resolution on admissibility at a later stage, i.e., during the drafting of the decision. The Court is not unaware of, and is in fact deeply concerned about, the proclivity of a number of courts to delay ruling on the admissibility of evidence until such time that the decision is rendered. Worse, the Court has likewise observed the penchant of a number of courts to admit evidence that are not otherwise admissible for the reason often used by these courts of "for whatever they are worth." As well, the Court has come to know that some courts have justified this admission of inadmissible evidence on the reason that "admissibility" is different from "probative value"—totally and illogically against the simple legal truism that inadmissible evidence cannot have any probative value at all. These practices can no longer be countenanced, as they are counterproductive, and result in a total waste of the time and effort of the appellate courts. These practices betray incompetence or indolence, or both. Certainly, these practices reek of grave

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46 503 Phil. 103 (2005) [Per J. Chico-Nazario, Second Division].
47 *Id.* at 118

abuse of discretion.[48]

Thus, the RTC is reminded that while procedural rules are essential, they must serve the overarching goal of ensuring a fair and efficient administration of justice, not create insurmountable obstacles for parties with valid claims. Rule 130, Section 4[49] of the Revised Rules on Evidence supports this principle by deeming accurate chemical reproduction or other equivalent techniques which accurately reproduce the originals, generally admissible as evidence to the same extent as originals, provided the original's authenticity is not in question. In this case, the actionable documents having been admitted, UFC's photocopies should have been accorded the same evidentiary weight as the originals.

Having established the existence and validity of the loans and assignment, the focus now shifts to the question of whether the loans have been satisfied. As emphasized in *Decena v. Asset Pool A (SPV-AMC), Inc.*,[50] once proof of indebtedness is presented in civil cases, the burden of proving payment rests upon the party asserting it.

In this case, the records reveal that the Tolentinos's defenses consist merely of a general denial of the obligation and an assertion that the action has prescribed.[51] Notably, the judicial affidavits[52] and testimonies[53] of the Tolentinos are entirely devoid of any mention of payment of the alleged debts.

A mere denial, however, cannot surmount the fact of the loans established by the promissory notes and contracts of assignment. On the matter of prescription, the Tolentinos's argument is equally untenable. They contend that since the promissory notes were executed on August 25, 2003[54] and October 27, 2003,[55] respectively, and UFC filed its Complaint only on October 18, 2013,[56] the action has prescribed.

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48 *Buencamino v. People*, 889 Phil. 871, 913 (2020) [Per J. Caguioa, First Division].

49 SECTION 4. *Original of document.* — (a) An "original" of a document is the document itself or any counterpart intended to have the same effect by a person executing or issuing it. An "original" of a photograph includes the negative or any print therefrom. If data is stored in a computer or similar device, any printout or other output readable by sight or other means, shown to reflect the data accurately, is an "original."

(b) A "duplicate" is a counterpart produced by the same impression as the original, or from the same matrix, or by means of photography, including enlargements and miniatures, or by mechanical or electronic re-recording, or by chemical reproduction, or by other equivalent techniques which accurately reproduce the original.

(c) A duplicate is admissible to the same extent as an original unless (1) a genuine question is raised as to the authenticity of the original, or (2) in the circumstances, it is unjust or inequitable to admit the duplicate in lieu of the original.

50 887 Phil. 906 (2020) [Per J. Delos Santos, Second Division].

51 RTC records, pp. 178–179.

52 *Id.* at 177–180.

53 TSN, James Tolentino, October 23, 2017, page 3–8.

54 RTC records, p. 9.

55 *Id.* at 10.

56 *Id.* at 1.

This contention is both erroneous and misleading. It is a well-settled rule that the prescriptive period does not run from the execution of a contract,[57] as erroneously claimed by the Tolentinos, particularly in this case, where the promissory notes expressly stipulated maturity dates,[58] prior to which payment could not be demanded. The Complaint, filed on October 18, 2013,[59] falls well within the 10-year prescriptive period under Article 1144(1) of the Civil Code,[60] when reckoned from the maturity dates of February 20, 2004 for the remaining balance on the debt amounting to PHP 970,184.00,[61] and April 24, 2004 for the outstanding debt amounting to PHP 1,082,340.00,[62] respectively.

Further, in the absence of any defense challenging the validity of the contracts of assignment, spouses James and Liwayway are solely liable for the loan obligation, to the exclusion of Juan. While the assignment contracts do not explicitly reflect the consent of spouses James and Liwayway to the assignment,[63] such absence of consent is not a valid defense against UFC, as provided under Article 1285 of the Civil Code.[64] As taught in *Aquintey v. Spouses Tibong*,[65] the consent of the debtor is not essential for the perfection of an assignment of credit. The purpose of notifying the debtor is merely to inform them that, from the date of the assignment, payment must be made to the assignee rather than to the original creditor:

> An assignment of credit is an agreement by virtue of which the owner of a credit, known as the assignor, by a legal cause, such as sale, dation in payment, exchange or donation, and without the consent of the debtor, transfers his credit and accessory rights to another, known as the assignee, who acquires the power to enforce it to the same extent as the assignor could enforce it against the debtor. It may be in the form of sale, but at times it may constitute a dation in payment, such as when a debtor, in order to obtain a release from his debt, assigns to his creditor a credit he has against a third person.

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57 *University of Mindanao, Inc. v. Bangko Sentral ng Pilipinas*, 776 Phil. 401, 425 (2016) [Per J. Leonen, Second Division]. (Citation omitted)

58 RTC records, pp. 9–10.

59 *Id.* at 1.

60 CIVIL CODE, art. 1144. The following actions must be brought within [10] years from the time the right of action accrues:
(1) upon a written contract[.]

61 RTC records, p. 9

62 *Id.* at 10.

63 *Id.* at 11–12.

64 CIVIL CODE, art. 1285. The debtor who has consented to the assignment of rights made by a creditor in favor of a third person, cannot set up against the assignee the compensation which would pertain to him against the assignor, unless the assignor was notified by the debtor at the time he gave his consent, that he reserved his right to the compensation.

If the creditor communicated the cession to him but the debtor did not consent thereto, the latter may set up the compensation of debts previous to the cession, but not of subsequent ones.

If the assignment is made without the knowledge of the debtor, he may set up the compensation of all credits prior to the same and also later ones until he had knowledge of the assignment.

65 540 Phil. 422 (2006) [Per J. Callejo, Sr., First Division].

. . . .

> In an assignment of credit, however, the consent of the debtor is not essential for its perfection; the knowledge thereof or lack of it affecting only the efficaciousness or inefficaciousness of any payment that might have been made. The assignment binds the debtor upon acquiring knowledge of the assignment but he is entitled, even then, to raise against the assignee the same defenses he could set up against the assignor necessary in order that assignment may fully produce legal effects. Thus, the duty to pay does not depend on the consent of the debtor. The purpose of the notice is only to inform that debtor from the date of the assignment. Payment should be made to the assignee and not to the original creditor.[66] (Citations omitted)

Thus, in the absence of any other defense, including evidence substantiating payment of the loan obligations, apart from the PHP 200,000.00[67] admittedly received by UFC,[68] spouses James and Liwayway remain indebted to UFC in the amount of PHP 1,852,524.00, exclusive of interest.[69]

On the issue of interest, this Court takes note of UFC's willingness, as stated in its Complaint, to reduce the stipulated interest rate from 25% per annum to 12% per annum.[70] However, the determination of whether stipulated interest rates are reasonable or unconscionable ultimately lies within the sound discretion of the courts, guided by established facts.

Considering the principles articulated in *Lara's Gifts & Decors, Inc. v. Midtown Industrial Sales, Inc.*[71] and the prevailing rates it discussed, this Court finds that the stipulated interest rate of 25% per annum is manifestly excessive and unconscionable, as it contravenes the principles of equity and fairness enshrined in Philippine jurisprudence. In *Lara's Gifts*, this Court held that excessive interest rates are contrary to public policy and that courts have discretion to equitably reduce them to the prevailing market rate approximating what the parties would have agreed upon under equal bargaining power.[72]

Thus, in light of the unconscionability of the 25% interest rate, the same is equitably reduced to 6% per annum, to be computed from February 20, 2004 and April 24, 2004,[73] respectively, or the stipulated maturity dates of the

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66 *Id.* at 446–448.
67 RTC records, p. 13.
68 *Id.* at 3.
69 *Id.* at 13–16.
70 *Id.* at 4.
71 929 Phil. 754 (2022) [Per J. Leonen, *En Banc*].
72 *Id.* at 772. (Citations omitted)
73 RTC records, pp. 9–10.

promissory notes, pursuant to Article 1169(1) of the Civil Code.[74] The reduced rate of 6% per annum is justified under Article 1229 of the Civil Code,[75] which empowers the courts to moderate excessive penalties. This rate reflects a fair approximation of the cost of money ensuring that creditors are justly compensated without imposing undue hardship upon borrowers, in accordance with established principles of fairness.

Accordingly, the interest on the loans, i.e., the balance of PHP 770,184.00 that matured on February 20, 2004 (Loan 1) and PHP 1,082,340.00 that matured on April 24, 2004 (Loan 2), are computed as follows:

Year	Loan 1		Loan 2	
	Interest Accrued (PHP)	Total Amount Due (PHP)	Interest Accrued (PHP)	Total Amount Due (PHP)
2004	46,305.93	816,489.93	64,895.95	1,147,235.95
2005	48,955.86	865,445.79	68,787.04	1,216,022.99
2006	51,891.21	917,337.00	72,911.44	1,288,934.43
2007	55,002.55	972,339.55	77,494.87	1,366,429.30
2008	58,460.17	1,030,799.71	81,929.64	1,448,358.94
2009	61,805.65	1,092,605.36	86,842.06	1,535,201.00
2010	65,511.45	1,158,116.82	92,049.01	1,627,250.01
2011	69,439.45	1,227,556.26	97,835.48	1,725,085.49
2012	73,804.61	1,301,360.88	103,434.28	1,828,519.78
2013	78,028.21	1,379,389.09	109,636.09	1,938,155.87
2014	82,706.70	1,462,095.78	116,209.76	2,054,365.63
2015	87,665.70	1,549,761.49	123,515.04	2,177,880.67
2016	93,176.62	1,642,938.11	130,583.40	2,308,464.07
2017	98,508.81	1,741,446.93	138,413.04	2,446,877.11
2018	104,415.30	1,845,862.22	146,712.14	2,593,589.25
2019	110,675.93	1,956,538.15	155,934.89	2,749,524.14
2020	117,633.34	2,074,171.49	164,858.53	2,914,382.68
2021	124,365.11	2,198,536.60	174,743.27	3,089,125.95
2022	131,821.91	2,330,358.51	185,220.69	3,274,346.64
2023	139,725.81	2,470,084.32	196,864.21	3,471,210.85
2024	135,930.72	2,606,015.03	154,529.47	3,625,740.32
Sub-Total	PHP 2,606,015.03		PHP 3,625,740.32	
Grand Total	PHP 6,231,755.35			

[74] *Id.* at 3–16.

[75] CIVIL CODE, art. 1229. The judge shall equitably reduce the penalty when the principal obligation has been partly or irregularly complied with by the debtor. Even if there has been no performance, the penalty may also be reduced by the courts if it is iniquitous or unconscionable.

On the basis of the foregoing, this Court finds that spouses James and Liwayway owe UFC: (1) PHP 2,606,015.03 for the loan that matured on February 20, 2004, and (2) PHP 3,625,740.32 for the loan that matured on April 24, 2004, amounting to a total of PHP 6,231,755.35.

ACCORDINGLY, the Petition is **GRANTED**. The March 15, 2023 Decision and the September 14, 2023 Resolution of the Court of Appeals in CA-G.R. CV No. 117139 are **REVERSED and SET ASIDE**. Spouses James and Liwayway G. Tolentino are **ORDERED to PAY** Unified Financing Corp. PHP 6,231,755.35, representing the principal amount and interest computed from the loans' respective maturity dates. This amount shall earn an interest of 6% per annum reckoned from the finality of this Decision until fully paid.

SO ORDERED.

JHOSEP Y. LOPEZ
Associate Justice

WE CONCUR:

MARVIC M.V.F. LEONEN
Senior Associate Justice

w/ Dissent
AMY C. LAZARO-JAVIER
Associate Justice

MARIO V. LOPEZ
Associate Justice

ANTONIO T. KHO, JR.
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.

MARVIC M.V.F. LEONEN
Senior Associate Justice
Chairperson, Second Division

CERTIFICATION

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

ALEXANDER G. GESMUNDO
Chief Justice