



Republic of the Philippines
Supreme Court
Manila

SPECIAL THIRD DIVISION

**UNITED COCONUT PLANTERS
BANK, substituted by LAND
BANK OF THE PHILIPPINES,***
Petitioner,

G.R. No. 222448

Present:

LEONEN, *Chairperson*,
ZALAMEDA,
ROSARIO,
MARQUEZ, and
KHO, JR., *JJ.*

- versus -

**EDITHA F. ANG and VIOLETA
M. FERNANDEZ,**
Respondents.

Promulgated:

MAR 03 2025

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RESOLUTION

ROSARIO, J.:

Before Us is the Motion for Reconsideration¹ filed by respondents Editha F. Ang (Ang) and Violeta M. Fernandez (Fernandez; collectively, respondents), asking the Court to take a second look at its Decision,² finding

* See Notice of Resolution dated October 19, 2022, *rollo*, pp. 406–408.

¹ *Id.* at 366–378.

² *Id.* at 336–356. The Decision dated November 24, 2021 in G.R. No. 222448 was penned by Associate Justice Rosmari D. Carandang (a retired Member of this Court) and concurred in by Senior Associate Justice Marvic M.V.F. Leonen and Associate Justices Ricardo R. Rosario and Jose Midas P. Marquez of the Third Division, Supreme Court. J. Zalameda, Dissenting Opinion, *id.* at 357–361.

for petitioner United Coconut Planters Bank (petitioner) in the instant case, the dispositive portion of which reads:

WHEREFORE, premises considered, the Decision dated May 11, 2015 and the Resolution dated December 4, 2015 of the Court of Appeals in CA-G.R. CV No. 04270 are **SET ASIDE**. Judgment is rendered as follows:

1. The extrajudicial foreclosure and auction sale conducted on August 2, 1999 is **DECLARED** valid; and
2. The Petition for Declaration of Nullity of Foreclosure, Auction Sale and Promissory Note & Fixing of True Account of Petitioners is **DISMISSED**.

SO ORDERED.³ (Emphasis in the original)

In said Decision, as well as the Decision⁴ of the Court of Appeals, and the Decision⁵ of the Regional Trial Court (RTC), it was established that the interests imposed by petitioner on the loan granted to respondents were unlawful, as it was not shown that the latter could have agreed to said interests, much less to the interest rates that petitioner would eventually charge them. The Credit Agreement and other loan documents relative to the loan, according to the courts below and this Court, were null and void for being potestative in character and thus violative of the principle of mutuality of contracts in Articles 1308 and 1309 of the Civil Code.⁶

Against this settled factual backdrop, the only issue left to be resolved by the Court is whether or not foreclosure proceedings due to non-payment of the loan may be held valid even if it is proved that the interest rates imposed by the lender were improper and unlawful.

This Court initially answered the query positively, as in Our Decision now under review, We relied on some jurisprudence, including the 2013 case of *Advocates For Truth in Lending, Inc. v. Bangko Sentral Monetary Board*⁷ which apparently supported the same. Thus:

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 [a person]. It has no support in law, in principles of justice, or in the human conscience nor is there any

³ *Id.* at 354.

⁴ *Id.* at 43–72. The May 11, 2015 Decision in CA-GR CV No. 04270 was penned by Associate Justice Jhosep Y. Lopez (now a Member of this Court) and concurred in by Associate Justices Gabriel T. Ingles and Marilyn B. Lagura-Yap of the Eighteenth Division, Court of Appeals, Cebu City.

⁵ *Id.* at 83–92. The June 22, 2011 Decision in SPCL. CIVIL ACTION NO. 6075 was penned by Assisting Judge Ledelia P. Aragona-Biliran of Branch 9, Regional Trial Court, Kalibo, Aklan.

⁶ *Id.* at 346–348; 61–69; 90–91.

⁷ 701 Phil. 483 (2013) [Per J. Reyes, *En Banc*].

reason whatsoever which may justify such imposition as righteous and as one that may be sustained within the sphere of public or private morals.

Stipulations authorizing iniquitous or unconscionable interests have been invariably struck down for being contrary to morals, if not against the law. Indeed, under Article 1409 of the Civil Code, these contracts are deemed inexistent and void ab initio, and therefore cannot be ratified, nor may the right to set up their illegality as a defense be waived.

Nonetheless, the nullity of the stipulation of usurious interest does not affect the lender's right to recover the principal of a loan, nor affect the other terms thereof. Thus, in a usurious loan with mortgage, the right to foreclose the mortgage subsists, and this right can be exercised by the creditor upon failure by the debtor to pay the debt due.⁸ (Citations omitted)

Respondents now point out that Our reliance on said jurisprudence is misplaced, considering that the case involved a petition seeking clarification on the authority of the Bangko Sentral ng Pilipinas Monetary Board to enforce Central Bank Circular No. 905, and the statement concerning the validity of foreclosure sales made in the face of usurious and unlawful interests was a mere *obiter dictum*. According to respondents, *Advocates* did not directly deal with the propriety of holding foreclosure sales proceeding from non-payment of iniquitous and unilaterally imposed interests.⁹

Respondents then assert that the jurisprudence more accurately applicable should be the case of *Spouses Andal v. Philippine National Bank*,¹⁰ decided by this Court also in 2013, but subsequent to the *Advocates* case.¹¹

In *Spouses Andal*, this Court held that:

It is worth mentioning that both the RTC and the CA are one in saying that "[petitioners-spouses] cannot be considered in default for their inability to pay the arbitrary, illegal and unconscionable interest rates and penalty charges unilaterally imposed by [respondent] bank." This is precisely the reason why the foreclosure proceedings involving petitioners-spouses' properties were invalidated. As pointed out by the CA, "since the interest rates are null and void, [respondent] bank has no right to foreclose [petitioners-spouses'] properties and any foreclosure thereof is illegal. x x x. Since there was no default yet, it is premature for [respondent] bank to foreclose the properties subject of the real estate mortgage contract."¹²

The contradiction in the principles embodied in the two aforementioned cases is quite evident. However, in the questioned Decision, We opted to apply *Advocates*, and reject *Spouses Andal*.

⁸ *Id.* at 500–501.

⁹ *Rollo*, pp. 367–368.

¹⁰ 722 Phil. 273 (2013) [Per J. Perez, Second Division].

¹¹ *Rollo*, pp. 368–369.

¹² *Spouses Andal v. Philippine National Bank*, 722 Phil. 273, 284 (2013) [Per J. Perez, Second Division].

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It should be noted that in our Decision now being sought to be reconsidered, Associate Justice Rodil V. Zalameda (Justice Zalameda) filed his dissent, holding that it would be the height of injustice and unfairness if the property of the mortgagor or debtor should be foreclosed for their inability to pay a loan with ubiquitous, unconscionable, and unilaterally imposed interest rates.¹³

Respondents likewise point out that the invalidity of foreclosure proceedings conducted pursuant to an interest rate unlawfully levelled on a loan finds support not only in *Spouses Andal* but also in the case of *Spouses Albos v. Spouses Embisan*,¹⁴ where this Court held that:

In view of the above disquisitions, We are constrained to nullify the foreclosure proceedings with respect to the mortgaged property in this case, following the doctrine in *Heirs of Zoilo and Primitiva Espiritu v. Landrito*.

In *Heirs of Espiritu*, the spouses Maximo and Paz Landrito, sometime in 1986, borrowed from the spouses Zoilo and Primitiva Espiritu the amount of [PHP] 350,000.00, secured by a real estate mortgage. Because of the Landritos' continued inability to pay the loan, the due date for payment was extended on the condition that the interest that has already accrued shall, from then on, form part of the principal. As such, after the third extension, the principal amounted to [PHP] 874,125.00 in only two years. Despite the extensions, however, the debt remained unpaid, prompting the spouses Espiritu to foreclose the mortgaged property.

The foreclosure proceeding in *Heirs of Espiritu*, however, was eventually nullified by this Court because the Landritos were deprived of the opportunity to settle the debt, in view of the overstated amount demanded from them. As held:

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

As a result, the subsequent registration of the foreclosure sale cannot transfer any rights over the mortgaged property to the [s]pouses Espiritu. The registration of the foreclosure sale, herein declared invalid, cannot vest title over the mortgaged property. [. . .]

¹³ *Id.* at 361.

¹⁴ 748 Phil. 907 (2014) [Per J. Velasco, Third Division].

Applying *Espiritu*, the extra-judicial foreclosure of the mortgaged property dated October 12, 1987 is declared null, void, and of no legal effect.¹⁵

However, in Our previous Decision, We refused to apply the doctrines announced in both *Spouses Andal* and *Spouses Albos*, on the ground that supposedly, they were not on all fours with the facts of the present case. Specifically, this Court held that:

The CA erred in relying in *Spouses Andal* in justifying the nullity of the foreclosure proceedings and auction sale. The Court cannot discriminately apply its ruling to all instances involving foreclosure of mortgaged properties of defaulting debtors due to usurious interests. The circumstances peculiar to the case that influenced the Court to render such ruling should have been taken into consideration by the CA before applying it to the case of Ang and Fernandez.

As pointed out by UCPB, the borrowers in *Spouses Andal* were unable to pay their loan solely due to "the exorbitant rate of interest unilaterally determined and imposed" by the bank. On the other hand, in the present case, Ang and Fernandez defaulted in their loan obligation "due to dollar shortage, high exchange rate." Moreover, in *Andal*, the borrowers were able to pay a substantial portion of their loan, [PHP] 14,800,000.00 out of [PHP] 21,805,000.00 or approximately 68% of their loan. Meanwhile, in the present case, Ang and Fernandez were only able to pay [PHP] 2,349,514.95 of their [PHP] 16,000,000.00 principal obligation.¹⁶

In its Comment¹⁷ to the instant Motion, petitioner asserts that there was no mistake in the present Decision being sought to be reconsidered.

We grant the Motion.

A careful reading of both *Spouses Andal* and *Spouses Albos* would reveal that the dispositions therein were not made to depend on the cause of non-payment of the principal loan; nor was the amount paid against the principal loan taken into consideration, in so making the clarification anent the validity of the subsequent foreclosure proceedings. It appears that as long as the interest rates were unconscionable or unilaterally imposed by the mortgagee, the foreclosure proceedings that followed should be annulled.

In the instant case, not only was there a finding, both by this Court and also by the courts below, that the interest rates being imposed were unilaterally imposed by petitioner, thus making it potestative or entirely dependent on petitioner's will. Being potestative, the principle of mutuality of contracts, found in Articles 1308 and 1309 of the Civil Code, could not have been present, making the provisions on interest void.

¹⁵ *Id.* at 919-920.

¹⁶ *Rollo*, pp. 350-351.

¹⁷ *Id.* at 411-421.

Being void, the subsequent foreclosure proceedings could not have been held validly. This is the essence of both the *Spouses Andal* and the *Spouses Albos* cases, which this Court now finds to be applicable after all, and should be relied upon for being more attuned to our civil laws and more in keeping with the spirit of fair play and justice.

Indeed, both *Spouses Andal* and *Spouses Albos* support the Dissenting Opinion¹⁸ of Justice Zalameda whose view, to the mind of this Court, should now be adopted. The unilateral imposition of interests, at such rate that the lender or mortgagee so pleases, cannot and should not be reason to justify a foreclosure sale. The mortgagor should be given a chance to pay their indebtedness at an interest rate clearly agreed upon by the parties, otherwise, they shall be at the mercy of their creditor, standing to lose their property without being afforded a fair opportunity to settle their indebtedness.

To help solidify some more the submission of this Court, We are citing our pronouncements in the 2019 case of *Vasquez v. Philippine National Bank*.¹⁹ In the hope that this will help settle with conviction the issues involved in the instant Motion, We are quoting at length our disquisitions in said case. Thus:

Jurisprudence has held that in a situation wherein a debtor was not given an opportunity to settle his/her debt at the correct amount due to the imposition of a null and void interest rate scheme, *no foreclosure proceedings may be instituted. The registration of such foreclosure sale has been held to be invalid and cannot vest title over the mortgaged property.*

In a situation wherein null and void interest rates are imposed under a contract of loan, the non-payment of the principal loan obligation does not place the debtor in a state of default, considering that under Article 1252 of the Civil Code, if a debt produces interest, payment of the principal shall not be deemed to have been made until the interests have been covered. Necessarily, since the obligation of making interest payments in the instant case is illegal and thus non-demandable, the payment of the principal loan obligation was likewise not yet demandable on the part of PNB. With Vasquez not being in a state of default, the foreclosure of the subject properties should not have proceeded.

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

[. . .] If the foreclosure proceedings were considered valid, this would result in an inequitable situation wherein the Spouses

¹⁸ *Id.* at 357–361.

¹⁹ 860 Phil. 922 (2019) [Per J. Caguioa, Second Division].

Landrito will have their land foreclosed for failure to pay an over-inflated loan only a small part of which they were obligated to pay.

[...]

Since the [s]pouses Landrito, the debtors in this case, were not given an opportunity to settle their debt, at the correct amount and without the iniquitous interest imposed, no foreclosure proceedings may be instituted. A judgment ordering a foreclosure sale is conditioned upon a finding on the correct amount of the unpaid obligation and the failure of the debtor to pay the said amount. In this case, it has not yet been shown that the [s]pouses Landrito had already failed to pay the correct amount of the debt and, therefore, a foreclosure sale cannot be conducted in order to answer for the unpaid debt. The foreclosure sale conducted upon their failure to pay [PHP] 874,125 in 1990 should be nullified since the amount demanded as the outstanding loan was overstated; consequently[,] it has not been shown that the mortgagors — the [s]pouses Landrito, have failed to pay their outstanding obligation. Moreover, if the proceeds of the sale together with its reasonable rates of interest were applied to the obligation, only a small part of its original loans would actually remain outstanding, but because of the unconscionable interest rates, the larger part corresponded to said excessive and iniquitous interest.

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

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

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

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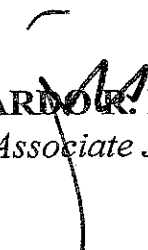
Also, in [*Spouses*] *Andal v. PNB*, the Court upheld the nullification of the foreclosure sale, affirming the appellate court's holding that "since the interest rates are null and void, [respondent] bank has no right to foreclose [petitioners-spouses'] properties and any foreclosure thereof is illegal.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

Hence, based on established jurisprudence, the fact that the interest rate scheme imposed upon Vasquez was null and void inevitably leads to the invalidity of the foreclosure sale. It would be unjust if the foreclosure sale of the subject properties was considered valid, as this would result in an inequitable situation wherein Vasquez would have his properties foreclosed for failure to pay a loan that was unduly inflated due to the unilateral and one-sided imposition of monetary interest.²⁰ (Emphasis supplied, citations omitted)

To the mind of this Court, with the aforementioned cases supporting a view contrary to Our initial ruling, it is now clear that the position taken by respondents and Justice Zalameda are more in accord with the law and should be adopted if this Court is to mete out a disposition justifiable in all aspects.

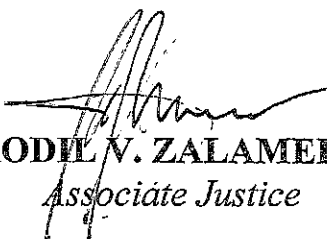
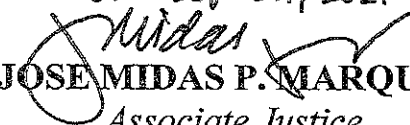
ACCORDINGLY, the instant Motion for Reconsideration is **GRANTED**. The Decision dated November 24, 2021, finding for petitioner United Coconut Planters Bank in the instant case is hereby **VACATED** and in lieu thereof, a new one is entered **AFFIRMING IN TOTO** the Decision dated May 11, 2015 of the Court of Appeals in CA-G.R. CV No. 04270.

SO ORDERED.


RICARDO R. ROSARIO
Associate Justice

²⁰ *Id.* at 949-952.

WE CONCUR:

See separate dissenting opinion
MARVIC M. V. F. LEONEN*Senior Associate Justice**Chairperson*
RODIL V. ZALAMEDA*Associate Justice**I maintain my vote in the
November 24, 2021 Decision*
JOSE MIDAS P. MARQUEZ*Associate Justice*
ANTONIO T. KHO, JR.*Associate Justice***ATTESTATION**

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


MARVIC M. V. F. LEONEN*Senior Associate Justice**Chairperson***CERTIFICATION**

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


ALEXANDER G. GESMUNDO*Chief Justice*