



Republic of the Philippines
Supreme Court
Baguio City

SECOND DIVISION

MANILA
CORPORATION,
Petitioner,

CREDIT

G.R. No. 258526

Present:

– versus –

RAMON S. VIROOMAL and
ANITA S. VIROOMAL,
OFFICE OF THE CLERK OF
COURT AND EX-OFFICIO
SHERIFF OF THE
REGIONAL TRIAL COURT
OF PARAÑAQUE CITY, as
represented by Atty. Jerry R.
Toledo and Sheriff Alejandro P.
Abrematea, and THE
REGISTER OF DEEDS OF
PARAÑAQUE CITY,
Respondents.

LEONEN, S.A.J., Chairperson,
LAZARO-JAVIER,
LOPEZ, M.,
LOPEZ, J., and
KHO, JR., JJ.

Promulgated:

JAN 11 2023

X-----X

DECISION

M. LOPEZ, J.:

A contract that is freely executed has the force of law between the parties. This time-honored principle of autonomy in contracts is, however, not absolute. It is balanced by the governing rule in Article 1306 of the Civil Code which declares that parties may not stipulate on matters which are contrary to

law, morals, good customs, public order, or public policy.¹ Guided by this premise, the parties' principal loan of PHP 467,600.00, payable for five years at PHP 16,895.77 per month, inclusive of interests, which, later on condemned the debtors to pay the sum of PHP 1,175,638.12, yet still leaving more unpaid balance, cannot be upheld. The interests and penalties charged by the creditor are patently exorbitant and unconscionable; hence void.

Before us is a Petition for Review on *Certiorari*² under Rule 45 of the Rules of Court, assailing the July 6, 2021 Decision³ and the December 22, 2021 Resolution⁴ of the Court of Appeals (CA) in *CA-G.R. CV No. 115157*, which affirmed the trial court's judgment declaring the interest rates imposed on respondents' loan void for being unconscionable and contrary to morals.⁵

The Facts

In September 2009, respondents Ramon S. Viroomal (Ramon) and Anita S. Viroomal obtained a loan from petitioner Manila Credit Corporation (MCC) under Promissory Note (PN) No. 7155 in the amount of PHP 467,600.00 payable in 60 months.⁶ The loan has an interest rate of 23.36% per annum and is secured by a real estate mortgage (REM)⁷ over Ramon's property in Parañaque City covered by Transfer Certificate of Title (TCT) No. (92517) 72248.⁸ To keep up with the monthly payments, respondents asked for a loan restructuring and executed a second promissory note, PN No. 8351, for the amount of PHP 495,840.00 payable in 84 months at 24.99% interest per annum.⁹ The restructured amount represents the unpaid balance in PN No. 7155, interests, and penalty charges. As respondents failed to make timely amortizations, MCC demanded full payment of the outstanding obligation of PHP 549,029.69 as of October 15, 2016. Respondents, however, claimed that they already paid a total of PHP 1,175,638.12 and thus asked for a re-computation of their account. MCC ignored respondents' request. Instead, it proceeded with the extra-judicial foreclosure of the REM.¹⁰ This prompted respondents to file a Complaint, *Civil Case No. 2017-79*, for the declaration of nullity of real estate mortgage, injunction, and specific performance with prayer for temporary restraining order and/or writ of preliminary injunction before the Regional Trial Court of Parañaque City (RTC).¹¹ Mainly, respondents argue that their loan obligation was fully paid had they not been burdened by the 36% per annum effective interest rate (EIR) and other charges which were allegedly surreptitiously imposed by MCC. Respondents argued

¹ *Pakistan International Airlines Corporation v. Hon. Ople*, 268 Phil. 92, 100-101 (1990) [Per J. Feliciano, Third Division].

² *Rollo*, pp. 3-30.

³ *Id.* at 31-43. Penned by Associate Justice Ruben Reynaldo G. Roxas with the concurrence of Associate Justices Ramon A. Cruz and Raymond Reynold R. Lauigan.

⁴ *Id.* at 44-45.

⁵ Decision dated March 3, 2020 of the Regional Trial Court of Parañaque City, Branch 258. Penned by Judge Noemi J. Balitaan. *Id.* at 100-114.

⁶ *Id.* at 65-66, Promissory Note No. 7155 and Disclosure Statement of Loan/Credit Transaction.

⁷ *Id.* at 67-70.

⁸ *Id.* at 92-95.

⁹ *Id.* 84-85, Promissory Note No. 8351 and Disclosure Statement of Loan/Credit Transaction.

¹⁰ *Id.* at 87-91.

¹¹ *Id.* at 100.

J

that the interest rate and charges must be declared void for being unconscionable, iniquitous, and immoral.¹²

In its Answer, MCC countered that respondents willingly consented to the terms of the loan contract which charges an EIR of 36% per annum on the principal amount plus penalties in case of delay. Respondents are estopped from assailing the validity of the promissory notes since they benefited from the loan proceeds. MCC prayed that the Complaint be dismissed and that the Counterclaims be granted.¹³

Meanwhile, there being no injunctive relief issued by the trial court, MCC was declared the highest bidder in the foreclosure sale. Upon the lapse of the redemption period, the title over the mortgaged property was consolidated in MCC's name under TCT No. 010-2019001298¹⁴ of the Registry of Deeds for Parañaque City.

On March 3, 2020, the RTC, Branch 258 rendered a Decision¹⁵ in favor of respondents, disposing as follows:

WHEREFORE, based on the foregoing, judgment is hereby rendered declaring:

a. The interests compounded by defendant in PN7155 as void for being grossly excessive, unconscionable, exorbitant[,] and contrary to law; hence reduced to the legal interest rate of 12% per annum based on the original principal loan amount of Php467,600.00;

b. PN7155 plus all interests FULLY PAID and that the obligation considered cancelled and extinguished together with the accessory contract of Real Estate Mortgage securing the same[;]

c. PN8351 void ab initio for lack of consideration because the amount loaned therein represents the illegally compounded interests only; considering further that as of January 2014 the plaintiffs have already paid Php757,778.54, an amount over and above the obligation in PN7155 plus the legal interest herein imposed;

d. The Plaintiffs are allowed to recover from the defendant the overpayment in the amount of Php417,859.58 plus the 6% legal interest rate from date of filing;

e. The Registry of Deeds for Parañaque City is directed to cancel TCT No. 010-2019001298, defendant's title, and reinstate TCT No. 72248, plaintiff Ramon's title thereto, after payment of appropriate fees.

The prayer for damages and Attorney's fees are denied for having no basis.

SO ORDERED.¹⁶

¹² *Id.* at 34.

¹³ *Id.*

¹⁴ *Id.* at 98–99.

¹⁵ *Id.* at 100–114.

¹⁶ *Id.* at 113–114.

J

MCC filed a Motion for Reconsideration which was denied in the RTC's Order¹⁷ dated June 16, 2020.

On appeal, the CA affirmed the trial court's judgment. In the assailed July 6, 2021 Decision,¹⁸ the CA held that MCC imposed 36% per annum, equivalent to 3% per month EIR on respondents' outstanding balance upon delay. The EIR was charged on top of the 1/10 of 1% interest for each day it remains overdue, 1.5% per month penalty charge, and PHP 100.00 collection fee, in addition to the stipulated 23.36% interest per annum on the principal amount. In total, MCC charged 77.36% interest per annum, which must be equitably reduced for being exorbitant and unconscionable.¹⁹

Further, the CA declared that the compounded interests and penalty charges imposed by MCC are void. After applying the legal interest and deducting the total payments made by respondents, the CA ruled that the first loan under PN No. 7155 was fully paid. As for the second loan under PN No. 8351, which supposedly covered the "unpaid balance" of PN No. 7155, the same was also declared void. Thus, respondents are now entitled to recover overpayment, the foreclosure proceedings were void, and the title to the mortgaged property was reverted to respondents, to *wit*:

Following the above precepts, the compounded interests and penalty charges imposed upon appellees must also be considered as iniquitous, unconscionable and, therefore, void. As such, the rates may validly be reduced by the courts, as done in this case. Taking into consideration the reduction and the payment already made by appellees (P1,175,638.12 in total), PN No. 7115 has already been fully paid; and any overpayment may validly be claimed by appellees. Consequently, PN No. 8351, which represented the "unpaid balance" of PN No. 7155 inclusive of the exorbitant interests and penalty charges, has no leg to stand on. There being no reason to foreclose the REM, the same having been extinguished with the payment of the loan, the new title in the name of MCC is void. Accordingly, TCT No. 72248 in the name of Ramon must be reinstated[.]²⁰

MCC sought reconsideration of the adverse judgment but the CA denied its Motion in the assailed December 22, 2021 Resolution.²¹

Hence, this recourse.

In the present Petition,²² MCC faults the CA for ruling that the stipulated interests and penalty charges, as well as the 36% per annum EIR,

¹⁷ *Id.* at 115-118.

¹⁸ *Id.* at 31-43. The *fallo* of the Decision reads:

WHEREFORE, the appeal is **DENIED**. The **Decision** dated 3 March 2020 and the **Order** dated 16 June 2020 of the Regional Trial Court, National Capital Judicial Region, Branch 258, Parañaque City, in Civil Case No. 2017-79 are **AFFIRMED**.

SO ORDERED.

¹⁹ *Id.* at 37-41.

²⁰ *Id.* at 41.

²¹ *Id.* at 44-45. The *fallo* of the Resolution reads:

WHEREFORE, the motion for reconsideration is **DENIED** for lack of merit.

SO ORDERED.

²² *Id.* at 3-30.

are invalid. It asserts that the terms of the loans are not open-ended and the interest rates were imposed for definite period.²³ Even assuming that the CA correctly nullified the EIR, petitioner submits that the stipulated interests, penalty charges, and the compounding of interests must be upheld as these were clearly expressed in the contract, which has the force of law between the parties.²⁴ MCC submits that the CA erred in declaring that the first promissory note, PN No. 7155, has been fully settled. Considering that there is a remaining balance under PN No. 7155, the execution of the second promissory note is based on a valid consideration. Due to respondents' default, the foreclosure proceedings initiated by MCC and the consolidation of the title in its name are valid.²⁵

On the other hand, respondents assert in their Comment²⁶ that MCC is engaged in a predatory lending scheme of luring borrowers with instant cash and easy payment terms, which, in reality, entraps one into deeper debt because of unconscionable interest rates and hidden charges. Both the RTC and the CA found that the interests and charges imposed by MCC in PN No. 7155 are void for being grossly excessive. After applying the legal interest rate of 12% per annum and deducting the payments made by respondents, the CA affirmed the trial court's ruling that the obligation under the first promissory note, PN No. 7155, has been fully settled; hence, there is no basis for the foreclosure proceedings. In addition, the execution of the second promissory note to cover the unpaid balance under PN No. 7155 is void for lack of consideration.²⁷

Ruling

The Petition has no merit. By virtue of their contract of loan, MCC agreed to lend money to respondents, who, in turn, bound themselves to return the principal obligation plus pay monetary interest, which is the compensation for the use or forbearance of money.²⁸ Under the principle of autonomy of contracts, parties to an agreement are allowed to establish such stipulations, clauses, terms, and conditions as they may deem convenient, provided that these are not contrary to law, morals, good customs, public order, or public policy.²⁹

Here, MCC and respondents agreed on 23.36% per annum as monetary interest for the PHP 467,600.00 loan under the first promissory note, PN No. 7155. The stipulated interests were computed for the five-year duration of the loan as they formed part of the PHP 16,895.77 monthly amortization to be paid by respondents. PN No. 7155 also provided for the

²³ *Id.* at 16.

²⁴ *Id.* at 17–23.

²⁵ *Id.*

²⁶ *Id.* at 193–223.

²⁷ *Id.* at 201–222.

²⁸ *Isla v. Estorga*, 834 Phil. 884, 891–892 (2018) [Per *J. Perlas-Bernabe*, Second Division].

²⁹ Article 1306 of the CIVIL CODE states:

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

payment of “an interest of 1/10th of 1% for every day” the loan obligation remains unpaid, plus “penalty of 1.5% per month” and “collection fee of P100.00 added, all of which, if left unpaid, shall be compounded monthly on due date to become part of the total outstanding obligation.”³⁰

In this case, however, the RTC found that MCC imposed an additional 3% monthly interest, referred to as the EIR. During trial, MCC admitted that it was their company policy to charge 3% per month EIR for every delay. The EIR is on top of the stipulated 23.36% per annum monetary interest and the penalties of 1/10 of 1% per day and 1.5% per month penalty, all of which were **compounded monthly** as part of the outstanding balance.

Clearly, the Court cannot sustain the imposition of the compounded 3% monthly EIR. The evidence shows that the EIR was not indicated in PN No. 7155. MCC *unilaterally* imposed the EIR by simply inserting it in the disclosure statement. This is not valid and does not bind the respondents as it violates the mutuality of contracts under Article 1308 of the Civil Code, which states that the validity or compliance to the contract cannot be left to the will of one of the parties.³¹

The Court likewise rejects MCC’s argument that the 3% monthly EIR may not be invalidated because the reduction of interest rates only apply to loans with open-ended terms, citing *De la Paz v. L & J Development Company, Inc.*³² Further, MCC cannot validly insist that respondents may not question the interest rates after agreeing to and benefiting from the proceeds of the loan.

In *Megalopolis Properties, Inc. v. D’Nhew Lending Corporation*,³³ the Court ruled that although there is no numerical limit on conscionability, the rate of 3% per month or 36% per annum is three times more than the 12% legal interest rate, and therefore, excessive and unconscionable. The rate of 36% per annum is also far greater than those previously upheld by the Court.³⁴ Moreover, contrary to MCC’s argument, we stressed in *Megalopolis* that the ruling in *De La Paz* did not in any way shield loan agreements with definite terms from scrutiny on conscionability. In *De La Paz*, the Court disallowed the creditor’s claim for payment of monetary interests because of the absence of a written stipulation on interests as required under Article 1956³⁵ of the Civil Code. The fact that an interest of 6% per month was imposed on an open-ended loan wherein the period is unspecified only served to aggravate the outrageous amount being charged. At any rate, jurisprudence is settled that the willingness of the debtor in assuming an unconscionable rate of interest is inconsequential to its validity.³⁶

³⁰ *Rollo*, p. 65.

³¹ *Planters Development Bank v. Spouses Lopez*, 720 Phil. 426, 445 (2013) [Per *J. Brion*, Second Division].

³² 742 Phil. 420 (2014) [Per *J. Del Castillo*, Second Division].

³³ G.R. No. 243891, May 5, 2021 [Per *J. Delos Santos*, Third Division].

³⁴ *Id.*

³⁵ **Article 1956.** No interest shall be due unless it has been expressly stipulated in writing.

³⁶ *Spouses Castro v. Tan*, 620 Phil. 239, 247–248 (2009) [Per *J. Del Castillo*, Second Division].

When MCC and the respondents executed PN No. 7155 in September 2009, the legal interest rate was fixed at 12% per annum.³⁷ This rate was considered the reasonable compensation for forbearance of money. As held in *Spouses Abella v. Spouses Abella*,³⁸ while the contracting parties may depart from the legal interest rate, any deviation therefrom must be reasonable and fair. If the stipulated interest for a loan is more than twice the prevailing legal rate of interest, it is for the creditor to prove that this rate is justified under the prevailing market conditions.³⁹ No justification was offered by MCC in this case.

In *Chua v. Timan*,⁴⁰ the Court declared that stipulated interest rates ranging from 3% per month and higher are excessive, unconscionable, and void for being contrary to morals, if not against the law.⁴¹ Although Central Bank of the Philippines Circular No. 905-82 has effectively removed the interest ceilings prescribed under the Usury Law, still, lenders may not impose interest rates that would enslave the borrowers or hemorrhage their assets.⁴² Following these standards, the 3% per month or 36% per annum EIR cannot pass as reasonable. It is unacceptable particularly in this case where the EIR was charged on top of the stipulated 23.36% per annum monetary interest and the penalties of 1/10 of 1% per day and 1.5% per month, compounded monthly. As correctly pointed out by the trial court, MCC's scheme exponentially bloated the principal loan amount of PHP 467,600.00. It misled respondents into continuously paying on the belief that their balance was increasing because of several delayed payments.⁴³

Likewise, the Court denies MCC's prayer to maintain the stipulated interest and charges in PN No. 7155 and hereby affirms the RTC and the CA's judgment equitably reducing the stipulated interest rate to the applicable 12% per annum legal interest. Even if we disregard the 3% per month or 36% per annum EIR, the Court sees that the stipulated interest rate of 23.36% per annum and the additional interest of 1/10 of 1% per day and 1.5% per month penalty, all compounded monthly, or roughly **42% per annum**, is still excessive. Stipulations authorizing the imposition of iniquitous or unconscionable interest are contrary to morals, if not against the law. Under Article 1409⁴⁴ of the Civil Code, these contracts are inexistent and void from the beginning. They cannot be ratified nor the right to set up their illegality as

³⁷ The rate of legal interest has already modified from twelve percent (12%) per annum to six percent (6%) per annum, effective July 1, 2013, as per Bangko Sentral ng Pilipinas Monetary Board Circular No. 799, Series of 2013.

³⁸ 763 Phil. 372 (2015) [Per *J. Leonen*, Second Division].

³⁹ *Id.* at 389.

⁴⁰ 584 Phil. 144 (2008) [Per *J. Quisumbing*, Second Division].

⁴¹ *Id.* at 148-149.

⁴² *Medel v. Court of Appeals*, 359 Phil. 820, 829 (1998) [Per *J. Pardo*, Third Division]; and *David v. Misamis Occidental II Electric Cooperative, Inc.*, 690 Phil. 718, 732 (2012) [Per *J. Mendoza*, Third Division].

⁴³ *Rollo*, pp. 105-111.

⁴⁴ **Article 1409.** The following contracts are inexistent and void from the beginning:

(1) Those whose cause, object or purpose is contrary to law, morals, good customs, public order or public policy.

x x x x

These contracts cannot be ratified. Neither can the right to set up the defense of illegality be waived.

a defense be waived. The unconscionable interest rate is therefore, nullified and is deemed not written in the contract of loan. For these reasons, and given the span of years counted from 2009 that are covered by the computation of interests, the reduction of the stipulated interest rates and penalties to the applicable 12% per annum legal interest is more equitable. This prevents the outstanding balance from increasing to an amount which disproportionately exceeds the PHP 467,600.00 principal debt.⁴⁵ The Court is empowered to equitably reduce the penalties charged especially in respondents' case because of their substantial payments.⁴⁶

Note however that only the EIR and stipulated interest rates and penalties are declared void for being unconscionable. The very nature of the parties' contract of loan entitles MCC to recover not only the principal amount, but also the payment of monetary interest from the respondents, as compensation for the use of the borrowed amount.⁴⁷ Based on Article 1420⁴⁸ of the Civil Code, respondents' obligation to pay the principal and the interest subsists as this can be separated from the void interests rates and charges.

Now, in order to determine whether the RTC and the CA were correct in ruling that the entire principal obligation of PHP 467,600.00 under the first promissory note, PN 7155, has been fully paid by respondents, we apply the legal rate of 12% per annum, as monetary interest reckoned from the date of the contract, September 2009.⁴⁹ We also deduct respondents' payments made until January 2014 amounting to a total of PHP 757,778.54,⁵⁰ computed as follows:

Date	Principal	Accrued Interest (1% per month)	Payments	Payment Applied to Interest	Remaining Interest	Payment Applied to Principal	New Principal	Monetary Interest
Sep. 2009	467,600.00	-		-	-	-	467,600.00	4,676.00
Oct. 2009	467,600.00	4,676.00	16,895.77	4,676.00	-	12,219.77	455,380.23	4,553.80
Nov. 2009	455,380.23	4,553.80	16,895.77	4,553.80	-	12,341.97	443,038.26	4,430.38
Dec. 2009	443,038.26	4,430.38	16,895.77	4,430.38	-	12,465.39	430,572.87	4,305.73
Jan. 2010	430,572.87	4,305.73	16,895.77	4,305.73	-	12,590.04	417,982.83	4,179.83
Feb. 2010	417,982.83	4,179.83		-	4,179.83	-	417,982.83	4,179.83
March 2010	417,982.83	8,359.66	34,650.48	8,359.66	-	26,290.82	391,692.01	3,916.92
April 2010	391,692.01	3,916.92	16,895.77	3,916.92	-	12,978.85	378,713.16	3,787.13
May 2010	378,713.16	3,787.13	16,895.77	3,787.13	-	13,108.64	365,604.52	3,656.05

⁴⁵ *Planters Development Bank v. Spouses Lopez*, 720 Phil. 426, 445 (2013) [Per J. Brion, Second Division].

⁴⁶ **Article 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.

⁴⁷ *Estores v. Spouses Supangan*, 686 Phil. 86, 97 (2012) [Per J. Del Castillo, First Division].

⁴⁸ **Article 1420.** In case of a divisible contract, if the illegal terms can be separated from the legal ones, the latter may be enforced.

⁴⁹ *Decena v. Asset Pool A (SPV-AMC), Inc.*, G.R. No. 239418, October 12, 2020, 958 SCRA 283, 298 [Per J. Delos Santos, Second Division].

⁵⁰ *Rollo*, pp. 81-82, payments of respondents for PN No. 7155 are shown in the Statement of Account dated April 30, 2014 prepared by MCC.

Y

June 2010	365,604.52	3,656.05	16,895.77	3,656.05	-	13,239.72	352,364.80	3,523.65
July 2010	352,364.80	3,523.65		-	3,523.65	-	352,364.80	3,523.65
Aug. 2010	352,364.80	7,047.30	17,209.77	7,047.30	-	10,162.47	342,202.32	3,422.02
Sep. 2010	342,202.32	3,422.02	34,225.24	3,422.02	-	30,803.22	311,399.11	3,113.99
Oct. 2010	311,399.11	3,113.99		-	3,113.99	-	311,399.11	3,113.99
Nov. 2010	311,399.11	6,227.98	2,606.27	2,606.27	3,621.71	-	311,399.11	3,113.99
Dec. 2010	311,399.11	6,735.70	18,112.27	6,735.70	-	11,376.57	300,022.54	3,000.23
Jan. 2011	300,022.54	3,000.23	19,167.00	3,000.23	-	16,166.77	283,855.77	2,838.56
Feb. 2011	283,855.77	2,838.56		-	2,838.56	-	283,855.77	2,838.56
March 2011	283,855.77	5,677.12	54,233.00	5,677.12	-	48,555.88	235,299.88	2,353.00
April 2011	235,299.88	2,353.00	34,425.77	2,353.00	-	32,072.77	203,227.11	2,032.27
May 2011	203,227.11	2,032.27		-	2,032.27	-	203,227.11	2,032.27
June 2011	203,227.11	4,064.54	34,674.20	4,064.54	-	30,609.66	172,617.45	1,726.17
July 2011	172,617.45	1,726.17		-	1,726.17	-	172,617.45	1,726.17
Aug. 2011	172,617.45	3,452.35		-	3,452.35	-	172,617.45	1,726.17
Sep. 2011	172,617.45	5,178.52	19,705.77	5,178.52	-	14,527.25	158,090.20	1,580.90
Oct. 2011	158,090.20	1,580.90		-	1,580.90	-	158,090.20	1,580.90
Nov. 2011	158,090.20	3,161.80		-	3,161.80	-	158,090.20	1,580.90
Dec. 2011	158,090.20	4,742.71	55,804.52	4,742.71	-	51,061.81	107,028.39	1,070.28
Jan. 2012	107,028.39	1,070.28	17,500.00	1,070.28	-	16,429.72	90,598.67	905.99
Feb. 2012	90,598.67	905.99	35,893.86	905.99	-	34,987.87	55,610.80	556.11
March 2012	55,610.80	556.11		-	556.11	-	55,610.80	556.11
April 2012	55,610.80	1,112.22	18,300.00	1,112.22	-	17,187.78	38,423.02	384.23
May 2012	38,423.02	384.23		-	384.23	-	38,423.02	384.23
June 2012	38,423.02	768.46	17,000.00	768.46	-	16,231.54	22,191.48	221.91
July 2012	22,191.48	221.91	17,000.00	221.91	-	16,778.09	5,413.39	54.13
Aug. 2012	5,413.39	54.13	17,000.00	54.13	-	16,945.87	(11,532.47)	
Sep. 2012	(11,532.47)		17,000.00	-	-	17,000.00	(28,532.47)	
Oct. 2012	(28,532.47)			-	-		(28,532.47)	
Nov. 2012	(28,532.47)		17,000.00	-	-	17,000.00	(45,532.47)	
Dec. 2012	(45,532.47)		15,000.00	-	-	15,000.00	(60,532.47)	
Jan. 2013	(60,532.47)		22,000.00	-	-	22,000.00	(82,532.47)	
Feb. 2013	(82,532.47)			-	-		(82,532.47)	
March 2013	(82,532.47)		17,000.00	-	-	17,000.00	(99,532.47)	
April 2013	(99,532.47)			-	-		(99,532.47)	
May 2013	(99,532.47)		17,000.00	-	-	17,000.00	(116,532.47)	
June 2013	(116,532.47)			-	-		(116,532.47)	
July 2013	(116,532.47)		50,000.00	-	-	50,000.00	(166,532.47)	
Aug. 2013	(166,532.47)		17,000.00	-	-	17,000.00	(183,532.47)	
Sep. 2013	(183,532.47)			-	-		(183,532.47)	
Oct. 2013	(183,532.47)			-	-		(183,532.47)	

d

Nov. 2013	(183,532.47)			-	-	-	(183,532.47)	
Dec 2013	(183,532.47)			-	-	-	(183,532.47)	
Jan. 2014	(183,532.47)		20,000.00	-	-	20,000.00	(203,532.47)	
TOTAL		116,817.64	757,778.54	86,646.07	30,171.58	671,132.47	(203,532.47)	86,646.07

As can be seen from the foregoing, the RTC and the CA correctly ruled that respondents had fully paid the entire obligation. The Court finds that the obligation was fully paid as early as August 2012 and there was even an overpayment of **PHP 11,532.47** for that month. Since respondents continued the payments until January 2014, they have a total overpayment of **PHP 203,532.47** for PN No. 7155.

Relative to this, the Court sustains the RTC and the CA's declaration that the second promissory note, PN No. 8351, is void for lack of consideration as it was only executed by respondents to cover the supposed "unpaid balance" in PN No. 7155. In this regard, we need to **modify** the RTC and the CA's judgment in order to reflect the correct amount of overpayment to be refunded to respondents. The total amount to be refunded to respondents must cover not only the payments made in PN No. 8351 in the amount of **PHP 417,859.58**,⁵¹ as awarded by the RTC and the CA, but also the overpayment in PN No. 7155 amounting to **PHP 203,532.47**, as shown in the computation above, plus legal interest of 6% per annum from the date of the filing of respondents' Complaint until finality, following *Nacar v. Gallery Frames*.⁵² All monetary awards will earn interest at the rate of 6% per annum from finality of this Decision until full payment.⁵³

Finally, the Court affirms the CA's ruling that the foreclosure proceedings are void. Generally, the nullity of the unconscionable interests and charges does not affect the terms of the real estate mortgage. The creditor's right to foreclose the mortgage remains, and such right can be exercised upon the failure of the debtors to pay the debt due.⁵⁴ In this case however, the principal loan obligation was extinguished by the full payment of the respondents. This act automatically terminates the real estate mortgage. Being a mere accessory contract, the mortgage cannot exist independently of the principal obligation.⁵⁵ Considering that the mortgage ceased to exist, the new title, TCT No. 010-2019001298⁵⁶ of the Registry of Deeds for Parañaque City, issued in the name of MCC as a result of the foreclosure, is void. The title registered in the name of respondent Ramon, TCT No. 72248,⁵⁷ was properly reinstated by the RTC and the CA.

⁵¹ *Id.* at 86, payments of respondents for PN 8351 are shown in the Statement of Account dated February 6, 2017 prepared by petitioner MCC.

⁵² *Nacar v. Gallery Frames*, 716 Phil. 267 (2013) [Per J. Peralta, *En Banc*]. See also *Bendecio v. Bautista*, G.R. No. 242087, December 7, 2021; and *Decena v. Asset Pool A (SPV-AMC), Inc.*, *supra* note 49.

⁵³ *Nacar v. Gallery Frames*, *supra* note 52.

⁵⁴ *Asian Cathay Finance and Leasing Corporation v. Spouses Gravador*, 637 Phil. 504, 511 (2010) [Per J. Nachura, Second Division].

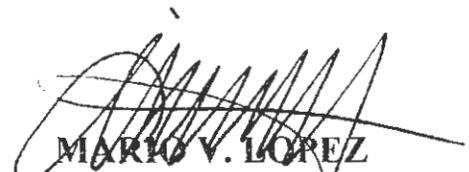
⁵⁵ *Marquez v. Elisan Credit Corporation*, 757 Phil. 401, 421-422 (2015) [Per J. Brion, Second Division].

⁵⁶ *Rollo*, pp. 98-99.

⁵⁷ *Id.* at 92-95.

ACCORDINGLY, the Petition is **DENIED**. The Decision dated July 6, 2021 and the Resolution dated December 22, 2021 of the Court of Appeals in *CA-G.R. CV No. 115157* are **AFFIRMED** with **MODIFICATION** in that petitioner Manila Credit Corporation is further ordered to refund to respondents Ramon S. Viroomal and Anita S. Viroomal the overpayment in the amount of **PHP 203,532.47** for PN No. 7155, in addition to the amount of **PHP 417,859.58** for PN No. 8351, with legal interest of 6% per annum from the date of the filing of respondents' Complaint until finality. Legal interest at the rate of 6% per annum is likewise imposed on all the monetary awards, from the finality of this Decision until full payment.

SO ORDERED.

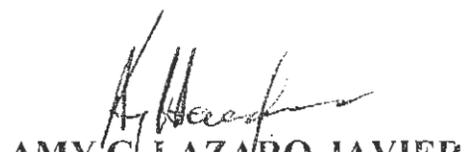


MARIO V. LOPEZ
Associate Justice

WE CONCUR:



MARVIC M.V. F. LEONEN
Associate Justice
Chairperson



AMY C. LAZARO-JAVIER
Associate Justice



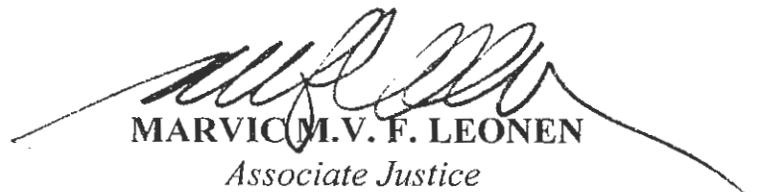
JHOSEP Y. LOPEZ
Associate Justice



ANTONIO T. KHO, JR.
Associate Justice

ATTESTATION

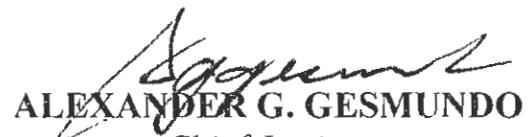
I attest that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.



MARVIC M.V. F. LEONEN
Associate Justice
Chairperson

CERTIFICATION

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



ALEXANDER G. GESMUNDO
Chief Justice