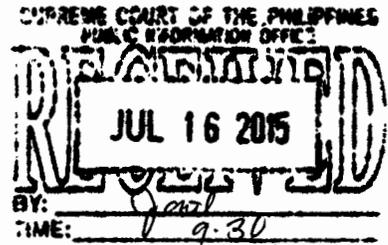




Republic of the Philippines
Supreme Court
 Manila

THIRD DIVISION

NOTICE



Sirs/Mesdames:

Please take notice that the Court, Third Division, issued a Resolution dated **June 22, 2015**, which reads as follows:

G.R. No. 180069 (PHILIPPINE COMMERCIAL INTERNATIONAL BANK [now BDO UNIBANK, INC.], petitioner v. ARTURO P. FRANCO, substituted by his heirs, namely: MAURICIA P. FRANCO, FLORIBEL P. FRANCO, and ALEXANDER P. FRANCO, respondents.) – This resolves private respondent Mauricia P. Franco and Floribel P. Franco’s “*Request for Clarification on Interpretation of Compensation Ruling*,”¹ which was sent via electronic mail to the Supreme Court Public Information Office.

To refresh, on March 5, 2014, the Court sustained the Decision of the Court of Appeals (CA), which affirmed *in toto* the ruling of the Regional Trial Court (RTC) that directed petitioner Bank to pay the amounts due on the four Trust Indenture Certificates (TICs) in favor of respondents.² On November 24, 2014, We denied with finality the motion for reconsideration filed by Petitioner Bank.³

The relevant portions of the email, which was subsequently referred to Atty. Wilfredo V. Lapitan, Clerk of Court, Third Division, by Atty. Theodore O. Te, Assistant Court Administrator and Chief, Public Information Office,⁴ are as follows:

For your reference is the first attachment which is a spreadsheet provided to us by the Bank via our lawyer who met with the Bank’s lawyers on 13 January 2015, where the Bank’s lawyers conveyed to our lawyer the Bank’s intention of paying us now to save on further interests. The spreadsheet outlines the Bank’s calculation as to how they will compensate us (approx. Php5.5M) of the assumption of settlement in December 2014.

X X X X

¹ *Rollo*, pp. 298-300.
² *Id.* at 249-256.
³ *Id.* at 292-295.
⁴ *Id.* at 297.

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Based on the above testimonies by the Bank's witness, it is our understanding that on maturity of the TICs, the invested funds (A) plus interest (B) were rolled over by the Bank to create a new investment (C) = A+B which interest was then applied to by the Bank. However, from what we see, the Bank's calculation has applied interest to the original investment amount only (A), when in fact, each time the TICs matured, roll over of the interest was applied by the Bank to the new roll over amount (C in this example).

We are of the view that the Bank ought to pay us compound interest, and taking into account the ruling on page 5 of the Supreme Court's decision dated March 5, 2014, the second attachment which is the calculation done by my CPA sees us being compensated with a vastly different amount (approx. Php10M) on the assumption of settlement in December 2015. However, our lawyer is of the view that compounded interest is onerous.

Given our differing interpretation of the Court's ruling, we, as Plaintiffs/Respondents, directly write to the Supreme Court to seek clarification on **whether the Court's ruling is for the Bank to pay us simple or compound interest** as we appreciate that this matter may entirely be in the discretion of the court.⁵ (Emphasis supplied)

Petitioner Bank is liable to pay **simple** interest.

Article 2212 of the Civil Code provides:

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

Monetary or compensatory interest, which itself shall earn legal interest *from the time of judicial demand*, applies only to obligations consisting in the payment of a sum of money.⁶

Article 2212 contemplates the presence of stipulated or conventional interest which has accrued when demand was judicially made; hence, in cases where no interest had been stipulated by the parties no accrued conventional interest could further earn interest upon judicial demand.⁷

Moreover, the compounding of interest should be in writing, *i.e.*, the stipulation compounding the interest charged should specifically be

⁵ *Id.* at 298.

⁶ *Gonzales v. Solid Cement Corporation*, G.R. No. 198423, December 4, 2012 (*En Banc* Resolution).

⁷ *The Phil. American Accident Insurance Co., Inc. v. Hon. Flores*, 186 Phil. 563, 566 (1980), as cited in *David v. Court of Appeals*, 375 Phil. 177, 185 (1999) and *Gonzales v. Solid Cement Corporation*, G.R. No. 198423, December 4, 2012 (*En Banc* Resolution).

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indicated in a written agreement.⁸ As held in *Spouses Albos v. Spouses Embisan*:⁹

x x x [There must] be an express stipulation for the payment of interest x x x for purposes of imposing compounded interest on the loan. **The requirement does not only entail reducing in writing the interest rate to be earned but also the manner of earning the same, if it is to be compounded.** Failure to specify the manner of earning interest, however, shall not automatically render the stipulation imposing the interest rate void since it is readily apparent from the contract itself that the parties herein agreed for the loan to bear interest. Instead, in default of any stipulation on the manner of earning interest, simple interest shall accrue.¹⁰ (Emphasis supplied)

The silence of the agreement on the manner of earning interest is a valid argument for prohibiting the charging of interest at a compounded rate.¹¹ In default of any unequivocal wording in the contract, the legal interest stipulated by the parties should be understood to be simple, not compounded.¹²

In this case, the dispositive portion of the Decision rendered by the RTC on October 21, 2003 states:

WHEREFORE, all the foregoing premises considered, judgment is hereby rendered in favor of plaintiff and ordering defendant Philippine Commercial International Bank, now known as Equitable-PCI Bank, to pay plaintiff the following:

1. On the First Cause of Action, the sum of P100,000.00, plus the stipulated interest of 8.75% per annum for the period December 8, 1986 to January 7, 1987, plus interest of 6% per annum from January 8, 1987 until fully paid;
2. On the Second Cause of Action, the sum of P840,594.54, plus the stipulated interest of 7.75% per annum for the period January 19, 1987 to February 18, 1987, plus interest of 6% per annum from February 19, 1987 until fully paid;
3. On the Third Cause of Action, the sum of P500,000.00, plus the stipulated interest of 8.50% per annum for the period May 13, 1987 to June 15, 1987, plus interest of 6% per annum from June 16, 1987 until fully paid;
4. On the Fourth Cause of Action, the sum of P502,958.90, plus the stipulated interest of 9.25% per annum for the period July 15, 1987 to August 14, 1987, plus interest of 6% per annum from August 15, 1987 until fully paid;
5. P50,000.00 as moral damages;
6. P200,000.00 as exemplary damages;

⁸ *Spouses Albos v. Spouses Embisan*, G.R. No. 210831, November 26, 2014.

⁹ *Id.*

¹⁰ *Id.*

¹¹ *Id.*

¹² *Id.*

7. Attorney's fees in the amount of ₱50,000.00, plus ₱3,000.00 for every hearing attended; and
8. ₱22,117.80 as reimbursement for filing fees.

The case against Equitable Banking Corporation is dismissed for insufficiency of evidence.

SO ORDERED.¹³

With respect to the interest rate applicable after the maturity date of the TICs, the trial court ruled that it is fair and reasonable to impose the legal rate of interest in view of the absence of any evidence as to the prevailing rate of interest at the time of roll over.¹⁴ Both We and the CA agreed.

It is significant that, during the pendency of this case, respondents did not raise the issue of whether Petitioner Bank should be held liable for compound interest. In fact, they did not present any evidence to prove that there was an understanding between the parties as to the compounding of interest and that such agreement was reduced into writing.

WHEREFORE, in view of the foregoing, the "*Request for Clarification on Interpretation of Compensation Ruling*" of private respondents Mauricia P. Franco and Floribel P. Franco is **NOTED**. Petitioner Bank is **DIRECTED** to pay **simple**, not compound, interest.

For the purpose of clarity, the RTC Decision dated October 21, 2003 is hereby modified as follows:

WHEREFORE, all the foregoing premises considered, judgment is hereby rendered in favor of plaintiff and ordering defendant Philippine Commercial International Bank, now known as Equitable-PCI Bank, to pay plaintiff the following:

1. On the First Cause of Action, the sum of P100,000.00, plus the stipulated interest of 8.75% per annum for the period December 8, 1986 to January 7, 1987, plus interest of 6% per annum from January 8, 1987 until fully paid;
2. On the Second Cause of Action, the sum of P840,594.54, plus the stipulated interest of 7.75% per annum for the period January 19, 1987 to February 18, 1987, plus interest of 6% per annum from February 19, 1987 until fully paid;
3. On the Third Cause of Action, the sum of P500,000.00, plus the stipulated interest of 8.50% per annum for the period May 13, 1987 to June 15, 1987, plus interest of 6% per annum from June 16, 1987 until fully paid;
4. On the Fourth Cause of Action, the sum of P502,958.90, plus the stipulated interest of 9.25% per annum for the period July 15, 1987

¹³ Rollo, p. 74.

¹⁴ *Id.* at 73.

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- to August 14, 1987, plus interest of 6% per annum from August 15, 1987 until fully paid;
5. ₱50,000.00 as moral damages;
 6. ₱200,000.00 as exemplary damages;
 7. Attorney's fees in the amount of ₱50,000.00, plus ₱3,000.00 for every hearing attended; and
 8. ₱22,117.80 as reimbursement for filing fees.

The Bank is directed to pay simple, not compound, interest on the interest due.

The case against Equitable Banking Corporation is dismissed for insufficiency of evidence.

SO ORDERED.

SO ORDERED.”

Very truly yours,


WILFREDO V. LAPITAN
Division Clerk of Court
7/10/15

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