

A TALE OF INTEREST: EXAMINING THE RULES ON THE IMPOSITION OF INTEREST*

*Anna Teresita A. Marcelo***

ABSTRACT

This Article sets forth the controversial issues concerning the proper computation of interest due to the inconsistent laws and jurisprudence on the subject matter. It examines the development of the rules on the imposition of interest by tackling how the Court formulated the guidelines in *Eastern Shipping Lines, Inc. v. Court of Appeals (Eastern Shipping Lines)* and thereafter, *Nacar v. Gallery Frames (Nacar)*. It likewise discusses the implication of both the *Eastern Shipping Lines* and *Nacar* guidelines on jurisprudence because of their failure to qualify that for a “loan or forbearance of money, goods, or credits,” the prevailing legal interest is only applicable in the absence of a stipulated interest. Furthermore, it delves into the new guidelines on the imposition of interest in *Lara’s Gifts & Decors, Inc. v. Midtown Industrial Sales, Inc. (Lara’s Gifts & Decors)*, which was brought about by the necessity of rectifying the shortcoming of both the *Eastern Shipping Lines* and *Nacar* guidelines.

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** Court Attorney, Office of Associate Justice Amy C. Lazaro-Javier, Supreme Court of the Philippines; Professorial Lecturer, De La Salle University College of Law; Professorial Lecturer, Centro Escolar University School of Law and Jurisprudence; J.D., Ateneo de Manila University School of Law (2016); B.S. Psychology (*Honors*), Ateneo de Manila University (2011).

INTRODUCTION

The Supreme Court has been consistently riddled with the problem of determining how to properly compute interest. This uncertainty arose because of the confusing laws and jurisprudence on the imposable interest rate and the periods they cover, as well as the conflicting jurisprudence on the definition and scope of the term “forbearance of money, goods, or credits.”¹

Jurisprudence dictates that there are two types of interest, *viz.*: (1) monetary interest; and (2) compensatory interest. Monetary interest is defined as “the compensation fixed by the parties for the use or forbearance of money,”² while compensatory interest is regarded as “that imposed by law or by the courts as penalty or indemnity for damages.”³ Fittingly, a valid claim for interest arises out of a contractual obligation (monetary interest) or as damages on the ground of delay or default (compensatory interest).⁴

With respect to monetary interest, the contracting parties have the freedom to stipulate an interest rate based on their liking.⁵ Nevertheless, the courts have the authority to “equitably temper⁶ excessive or unconscionable interest rates. All the same, it is important to note that only the excessive or unconscionable interest rate is rendered null and void.⁷ The contracting “parties’ agreement on the payment of interest on the principal loan obligation subsists.”⁸ In this scenario, it is as if the contracting parties did not stipulate an interest rate. Hence, the Court will apply the prevailing legal interest rate at the time the agreement was entered into.⁹ The legal interest rate is considered as the “presumptive reasonable compensation for borrowed money.”¹⁰

It is crucial to differentiate monetary interest from compensatory interest, because the latter will only operate in the absence of the former or if the former is found by the courts to be excessive or unconscionable.

¹ *Lara’s Gifts & Decors, Inc. v. Midtown Indus. Sales, Inc.* [hereinafter “*Lara’s Gifts & Decors*”], G.R. No. 225433, Aug. 28, 2019 (Caguioa, J., *concurring and dissenting*).

² *Isla v. Estorga*, G.R. No. 233974, 869 SCRA 410, 417 (2018).

³ *Id.*

⁴ *Id.*

⁵ *Id.*

⁶ *Id.*

⁷ *Id.* at 417-418.

⁸ *Id.* at 418.

⁹ *Id.* (Emphasis, italics, and underscoring omitted.)

¹⁰ *Id.*

Verily, Article 1159 of the Civil Code states that “obligations arising from contracts have the force of law between the contracting parties and should be complied with in good faith.” Undoubtedly, monetary interest, being the stipulated interest agreed upon by the contracting parties, takes precedence over compensatory interest. As long as the stipulated interest is not found to be excessive or unconscionable by the courts, the concept of compensatory interest finds no application. The stipulated interest remains in full force until the obligation is satisfied.¹¹

In *Reformina v. Tomol*¹² (*Reformina*), the Court held that the 12% per annum legal interest rate under Central Bank Circular (“CBC”) No. 416, Series of 1974 applies to a “loan or forbearance of money, goods, or credits” and to the interest rate allowed in judgments. Furthermore, it ruled that the term “judgments” refers to “judgments in litigations involving loans or forbearance of any money, goods or credits.”¹³ Hence, CBC No. 416, Series of 1974 does not apply to “[a]ny other kind of monetary judgment which has nothing to do with, nor involving loans or forbearance of any money, goods or credits.”¹⁴ Instead, Article 2209 of the Civil Code, which provides for a 6% per annum legal interest rate, applies.

Notably, in *Eastern Shipping Lines, Inc. v. Court of Appeals*¹⁵ (“*Eastern Shipping Lines*”), the Court crafted the first set of rules on the imposition of interest. The *Eastern Shipping Lines* guidelines were later on amended in *Nacar v. Gallery Frames*¹⁶ (“*Nacar*”).

Despite the attempt of the Court to reconcile the contradicting laws and jurisprudence on interest, both the *Eastern Shipping Lines* and *Nacar* guidelines failed to state that for a “loan or forbearance of money, goods, or credits,” the prevailing legal interest should only apply in the absence of a stipulated interest. This omission by the Court led to the promulgation of jurisprudence where the stipulated interest had been imposed on the adjudged amount until the finality of decision, but the prevailing legal interest would mistakenly be applied in lieu of the stipulated interest from

¹¹ *Lara's Gifts & Decors*, G.R. No. 225433.

¹² [Hereinafter “*Reformina*”], G.R. No. L-59096, 139 SCRA 260, Oct. 11, 1985.

¹³ *Id.*

¹⁴ *Id.*

¹⁵ *Eastern Shipping Lines, Inc. v. CA* [hereinafter “*Eastern Shipping Lines*”], G.R. No. 97412, 234 SCRA 7, July 12, 1994.

¹⁶ *Nacar v. Gallery Frames* [hereinafter “*Nacar*”], G.R. No. 189871, 703 SCRA 439, Aug. 13, 2013.

the finality of the decision until full payment of the obligation. Hence, the Court attempted to rectify its mistake by issuing a new set of guidelines on the imposition of interest in *Lara's Gifts & Decors, Inc. v. Midtown Industrial Sales, Inc.* (“*Lara's Gifts & Decors*”).¹⁷

Notably, the payment of legal interest can be traced back to the Spanish Civil Code of 1889 (“Spanish Civil Code”). The Spanish Civil Code prescribed the payment of legal interest at the rate of 6% per annum, unless otherwise fixed by the Government, when the debtor defaults in an obligation involving the payment of a sum of money. Legal interest is only applied in the absence of an interest agreed upon by the parties.¹⁸

On February 24, 1916, the Usury Law¹⁹ was enacted. Under the Usury Law, the rate of legal interest was pegged at 6% per annum. This rate was only applicable to a “loan or forbearance of money, goods, or credits” and the rate allowed in judgments, in the absence of an express contract as to such rate.²⁰ Section 1 of the Usury Law states:

The rate of interest for the loan or forbearance of any money, goods, or credits and the rate allowed in judgments, in the absence of express contract as to such rate of interest, shall be six per centum per annum or such rate as may be prescribed by the Monetary Board of the Central Bank of the Philippines for that purpose in accordance with the authority hereby granted.

On June 18, 1949, the Civil Code of the Philippines²¹ (“Civil Code”) was enacted. It took effect the following year. Significantly, the Civil Code adopted a provision similar to that found under the Spanish Civil Code.²² Article 2209 of the Civil Code provides:

Article 2209. If the obligation consists in the payment of a sum of money, and the debtor incurs in delay, the indemnity for damages, there being no stipulation to the contrary, shall be the payment of the interest agreed upon, and in the absence of stipulation, the legal interest, which is six per cent per annum.

¹⁷ *Lara's Gifts & Decors*, G.R. No. 225433.

¹⁸ CIVIL CODE (1889), art. 1108.

¹⁹ Act No. 2655 (1916).

²⁰ *Lara's Gifts & Decors*, G.R. No. 225433 (Caguioa, J., *concurring and dissenting*).

²¹ CIVIL CODE.

²² *Lara's Gifts & Decors*, G.R. No. 225433 (Caguioa, J., *concurring and dissenting*).

On January 29, 1973, the Usury Law was amended by Presidential Decree (PD) No. 116.²³ Under PD No. 116, the then Central Bank (CB) was authorized to adjust the legal interest rate, taking into consideration the following: (1) “the existing economic conditions in the country and the general requirements of the national economy;”²⁴ (2) “the supply of and demand for credit;”²⁵ (3) “the rate of increase in the price levels;”²⁶ and (4) “such other relevant criteria.”²⁷ PD No. 116 provides:

Section 1. Section one of Act Numbered Two thousand six hundred fifty-five is hereby amended to read as follows:

“Section 1. The rate of interest for the loan or forbearance of any money, goods, or credits and the rate allowed in judgments, in the absence of express contract as to such rate of interest, shall be six per centum per annum or such rate as may be prescribed by the Monetary Board of the Central Bank of the Philippines for that purpose in accordance with the authority hereby granted.”

Section 2. The same Act is hereby amended by adding the following section immediately after section one thereof, which reads as follows:

“Section 1-a. The Monetary Board is hereby authorized to prescribe the maximum rate or rates of interest for the loan or renewal thereof or the forbearance of any money, goods or credits, and to change such rate or rates whenever warranted by prevailing economic and social conditions: Provided, That such changes shall not be made oftener than once every twelve months.

In the exercise of the authority herein granted, the Monetary Board may prescribe higher maximum rates for consumer loans or renewals thereof as well as such loans made by pawnshops, finance companies and other similar credit institutions although the rates prescribed for these institutions need not necessarily be uniform.”

²³ Pres. Dec. No. 116 (1973).

²⁴ § 6.

²⁵ § 6.

²⁶ § 6.

²⁷ § 6.

Section 1-a of the Usury Law was further amended by PD No. 858²⁸ and PD No. 1684²⁹ as follows:³⁰

Section 1-a. The Monetary Board is hereby authorized to prescribe the maximum rate or rates of interest for the loan or renewal thereof or the forbearance of any money, goods or credits, and to change such rate or rates whenever warranted by prevailing economic and social conditions: Provided, That changes in such rate or rates may be effected gradually on scheduled dates announced in advance.

In the exercise of the authority herein granted the Monetary Board may prescribe higher maximum rates for loans of low priority, such as consumer loans or renewals thereof as well as such loans made by pawnshops, finance companies and other similar credit institutions although the rates prescribed for these institutions need not necessarily be uniform. The Monetary Board is also authorized to prescribe different maximum rate or rates for different types of borrowings, including deposits and deposit substitutes, or loans of financial intermediaries.

On July 29, 1974, acting on the authority conferred to it by the Usury Law, as amended by PD No. 116, the CB raised the legal interest rate under Section 1 of the Usury Law from 6% per annum to 12% per annum through the promulgation of CBC No. 416, Series of 1974,³¹ viz.:

By virtue of the authority granted to it under Section 1 of Act No. 2655, as amended, otherwise known as the "Usury Law," the Monetary Board, in its Resolution No. 1622 dated July 29, 1974, has prescribed that the rate of interest for the loan or forbearance of any money, goods or credits and the rate allowed in judgments, in the absence of express contract as to such rate of interest, shall be twelve percent (12%) per annum.

Consequently, controversy arose regarding the scope and application of the 12% per annum interest rate.³² This eventually led to the promulgation of the landmark case of *Eastern Shipping Lines*³³ on July 12, 1994. In *Eastern Shipping Lines*, the Court issued the first set of guidelines on

²⁸ Pres. Dec. No. 858 (1975).

²⁹ Pres. Dec. No. 1684 (1980).

³⁰ *Lara's Gifts & Decors*, G.R. No. 225433 (Caguioa, J., *concurring and dissenting*).

³¹ *Id.*

³² *Id.*

³³ *Eastern Shipping Lines*, 234 SCRA 7.

the imposition of interest, attempting to reconcile the various provisions found under the Usury Law, as amended by PD No. 116, and the Civil Code, as well as jurisprudence concerning the computation of interest.³⁴

Almost 20 years later, the rates of interest stated in the *Eastern Shipping Lines* guidelines were modified by *Bangko Sentral ng Pilipinas* (BSP)-Monetary Board (MB) Circular No. 799, Series of 2013. By virtue of BSP-MB Circular No. 799, Series of 2013, the legal interest rate applicable to a “loan or forbearance of money, goods, or credits” and judgments was reduced to 6% per annum. BSP-MB Circular No. 799, Series of 2013 took effect on July 1, 2013.

On August 13, 2013, adopting BSP-MB Circular No. 799, Series of 2013, the Court issued an updated version of the *Eastern Shipping Lines* guidelines in *Nacar*.³⁵ Because of BSP-MB Circular No. 799, Series of 2013, the legal interest rate of 6% per annum is to be uniformly applied. Nevertheless, BSP-MB Circular No. 799, Series of 2013 has no retroactive effect. Hence, *Nacar* emphasized that while there was no need to distinguish between an obligation consisting of a “loan or forbearance of money, goods, or credits” and any other monetary obligation for sums of money due on or after July 1, 2013, such necessity existed for sums of money due before July 1, 2013.³⁶

Despite the issuance of the *Eastern Shipping Lines* guidelines and thereafter, the *Nacar* guidelines, confusion regarding the correct computation of interest continued to permeate. Under both the *Eastern Shipping Lines* and *Nacar* guidelines, the Court “failed to qualify that for loans or forbearance of money, the prevailing legal interest should only apply in the absence of stipulated interest.”³⁷ Moreover, the Court continued to promulgate inconsistent decisions regarding the definition and scope of the term “forbearance of money, goods, or credits.” Verily, such term was never defined by the Usury Law, as amended by PD No. 116, nor the Civil Code.³⁸

On that account, the Court, in the recent case of *Lara’s Gifts & Decors*,³⁹ attempted to finally settle the issues concerning the imposition of interest. In *Lara’s Gifts & Decors*, the Court modified both the *Eastern Shipping Lines* and *Nacar* guidelines by clarifying that when there is a

³⁴ *Lara’s Gifts & Decors*, G.R. No. 225433 (Caguioa, J., *concurring and dissenting*).

³⁵ *Nacar*, 703 SCRA 439.

³⁶ *Lara’s Gifts & Decors*, G.R. No. 225433 (Caguioa, J., *concurring and dissenting*).

³⁷ *Lara’s Gifts & Decors*, G.R. No. 225433.

³⁸ *Id.* (Caguioa, J., *concurring and dissenting*).

³⁹ *Lara’s Gifts & Decors*, G.R. No. 225433.

stipulated interest rate for a “loan or forbearance of money, goods, or credits,” such interest rate will prevail over the current legal interest. It likewise distinguished the application of Article 2209 of the Civil Code and Articles 2210 and 2211.⁴⁰ Furthermore, it reconciled the conflicting jurisprudence regarding the definition of the term “forbearance of money, goods, or credits” by adopting the definition under the case of *Estores v. Spouses Supangan*⁴¹ (“*Estores?*”).

This Article seeks to analyze the unrelenting issues regarding the proper computation of interest and the various ways the Court has attempted to address them.

Part I of this Article explores the development of the guidelines on the imposition of interest. *First*, it discusses how the Court formulated the initial guidelines on the computation of interest in the landmark case of *Eastern Shipping Lines* and the implication of the same on jurisprudence. *Second*, it tackles BSP-MB Circular No. 799, Series of 2013 and addresses how the same led to the revised *Eastern Shipping Lines* guidelines in *Nacar*.

Next, Part II analyzes the present rules on the imposition of interest under *Lara’s Gifts & Decors*. It lays out the unsettled issues relating to the proper computation of interest and how the Court endeavored once more to resolve the same by further modifying both the *Eastern Shipping Lines* and *Nacar* guidelines.

⁴⁰ Art. 2209. If the obligation consists in the payment of a sum of money, and the debtor incurs in delay, the indemnity for damages, there being no stipulation to the contrary, shall be the payment of the interest agreed upon, and in the absence of stipulation, the legal interest, which is six per cent per annum.

Art. 2210. Interest may, in the discretion of the court, be allowed upon damages awarded for breach of contract.

Art. 2211. In crimes and quasi-delicts, interest as a part of the damages may, in a proper case, be adjudicated in the discretion of the court.

⁴¹ *Estores v. Spouses Supangan* [hereinafter “*Estores?*”], G.R. No. 175139, 670 SCRA 95, Apr. 18, 2012.

I. THE DEVELOPMENT OF THE GUIDELINES ON THE IMPOSITION OF INTEREST

A. The Landmark Case of *Eastern Shipping Lines, Inc. v. Court of Appeals*

In *Reformina*,⁴² the Court held that a decision rendered in an action for damages for injury to persons and loss of property does not constitute a judgment involving a “loan or forbearance of money, goods, or credits.” Hence, the increased legal interest rate of 12% per annum under CBC No. 416, Series of 1974 is inapplicable. The Court ruled:

It will be noted that Act No. 2655 deals with interest on (1) loans; (2) forbearances of any money, goods, or credits; and (3) rate allowed in judgments.

The judgments spoken of and referred to are judgments in litigations involving loans or forbearance of any money, goods or credits. Any other kind of monetary judgment which has nothing to do with, nor involving loans or forbearance of any money, goods or credits does not fall within the coverage of the said law for it is not within the ambit of the authority granted to the Central Bank[.]

* * *

Coming to the case at bar, the decision herein sought to be executed is one rendered in an Action for Damages for injury to persons and loss of property and does not involve any loan, much less forbearances of any money, goods or credits. As correctly argued by the private respondents, the law applicable to the said case is Article 2209 of the New Civil Code[.]

The above provision remains untouched despite the grant of authority to the Central Bank by Act No. 2655, as amended.⁴³

The *Reformina* ruling was reiterated in *Philippine Rabbit Bus Lines, Inc. v. Cruz*⁴⁴ (“*Philippine Rabbit Bus Lines*”), where the Court held that a judgment awarding damages for loss or injury to person or property will earn legal interest at the rate of 6% per annum. In the same manner, the Court ruled in

⁴² *Reformina*, 139 SCRA 260.

⁴³ *Reformina*, 139 SCRA 260, 265-267.

⁴⁴ *Phil. Rabbit Bus Lines, Inc. v. Cruz* [hereinafter “*Phil. Rabbit Bus Lines*”], G.R. No. 71017, 143 SCRA 158, July, 28, 1986.

*Florendo v. Ruiz*⁴⁵ (“*Florendo*”) that the legal interest rate of 6% per annum is applicable to a judgment awarding damages and retirement and group annuity funds on the basis of an illegal dismissal case. Lastly, in *National Power Corporation v. Angas*⁴⁶ (“*NPC*”), the Court held that the appropriate legal interest rate on the payment of just compensation in the expropriation of certain parcels of land is 6% per annum.

Undoubtedly, *Reformina*, *Philippine Rabbit Bus Lines*, *Florendo*, and *NPC* illustrate the importance of determining whether an obligation to pay a sum of money constitutes a “loan or forbearance of money, goods, or credits” in order to apply the correct rate of legal interest—whether the applicable rate is 12% per annum under CBC No. 416, Series of 1974 or 6% per annum under Article 2209 of the Civil Code.

For clarity and guidance, the Court first laid down the guidelines on the proper computation of interest in the landmark case of *Eastern Shipping Lines*.⁴⁷ In this case, the Court summarized and synthesized its previous rulings regarding the determination of the applicable interest rate and the periods covered by the same. It likewise tackled the daunting issue of determining the correct coverage of the term “forbearance of money, goods, or credits.” Significantly, the Court has applied the *Eastern Shipping Lines* guidelines in around 150 cases.

The case of *Eastern Shipping Lines* involved an action for damages based on a contract of carriage of goods. The pivotal issues involved the applicable rate of legal interest, i.e. the rate of 12% per annum under CBC No. 416, Series of 1974 or the rate of 6% per annum under Article 2209 of the Civil Code, and when the payment of legal interest on an award for loss or damages should be computed,⁴⁸ i.e. “from the time the complaint is filed or from the date the decision appealed from is rendered.”⁴⁹

In this case, two fiber drums containing riboflavin were shipped from Yokohama, Japan for delivery on a vessel owned by Eastern Shipping Lines, Inc. (petitioner). Accordingly, a bill of lading was issued to cover the voyage and the shipment was insured. When the shipment arrived in Manila, Metro Port Service, Inc. (the *arrastré* operator) took charge of it. One drum

⁴⁵ *Florendo v. Ruiz* [hereinafter “*Florendo*”], G.R. No. 64571, 170 SCRA 461, Feb. 21, 1989.

⁴⁶ *Nat’l Power Corp. v. Angas* [hereinafter “*Nat’l Power Corp*”], G.R. No. 60225, 208 SCRA 542, May 8, 1992.

⁴⁷ *Eastern Shipping Lines*, 234 SCRA 7.

⁴⁸ *Id.* at 81.

⁴⁹ *Id.*

was declared to be in bad order. Thereafter, the custody of the shipment was transferred to Allied Brokerage Corporation (broker-forwarder). It then delivered the shipment to the consignee's warehouse, noting that one drum contained spillages and that the rest of its contents were adulterated and fake. The losses and damages sustained by the shipment were alleged to have been attributable to the fault and negligence of petitioner and Allied Brokerage Corporation. The consignee purportedly suffered losses and damages amounting to PHP 19,032.95. Hence, the consignee sought payment from petitioner and Allied Brokerage Corporation; however, they failed and refused to answer for the same. Consequently, Mercantile Insurance Company, Inc. was forced to pay the consignee PHP 19,032.95 under its marine insurance policy, subrogating it to the rights of the consignee against petitioner and Allied Brokerage Corporation.⁵⁰

Mercantile Insurance Company, Inc., as the insurer-subrogee of the consignee, sued Eastern Shipping Lines, Inc., petitioner, and Allied Brokerage Corporation for damages sustained by the subject shipment. The trial court ruled in favor of Mercantile Insurance Company, Inc. As evidenced by the bill of lading and commercial invoice, the two drums were shipped in good order and condition. However, when the same was delivered to Metro Port Service, Inc., one drum was declared to be in bad order. Of equal importance, the Marine Cargo Survey Report indicated that such losses and damages occurred while in the successive custody and possession of petitioner and Allied Brokerage Corporation.⁵¹ Markedly, under Articles 1737 and 1738 of the Civil Code,

[T]he common carrier's duty to observe extraordinary diligence in the vigilance of goods remains in full force and effect even if the goods are temporarily unloaded and stored in transit in the warehouse of the carrier at the place of destination, until the consignee has been advised and has had reasonable opportunity to remove or dispose of the goods.⁵²

On appeal, the Court of Appeals (CA) affirmed the judgment of the trial court. Petitioner then sought recourse with the Court.⁵³

The Court pointed out that the instant petition was brought solely by petitioner as the common carrier. It ruled that petitioner had the burden of rebutting the presumption of fault ascribed to common carriers under

⁵⁰ *Id.* at 81-82.

⁵¹ *Id.* at 82-83.

⁵² *Id.* at 83.

⁵³ *Id.* at 85.

Article 1735 of the Civil Code, which states that “if the goods are lost, destroyed or deteriorated, common carriers are presumed to have been at fault or to have acted negligently, unless they prove that they observed extraordinary diligence.” Evidently, petitioner failed to rebut such presumption and thus, was liable for the losses and damages sustained by the subject shipment. A factual finding of the trial court, which was affirmed by the appellate court, was that there was sufficient evidence that the subject shipment suffered losses and damages while in the successive possession of petitioner and Allied Brokerage Corporation. Accordingly, the liability of petitioner is unavoidable. Indeed, it does not matter whether petitioner and Allied Brokerage should be held solidarily liable with it.⁵⁴

The Court emphasized that the issues on the correct computation of interest deserved “more than just a passing remark.”⁵⁵ Hence, the Court set forth the chronological recitation of its major rulings regarding the topic.⁵⁶ Based on the similarity of the issues and the corresponding rulings rendered by it, the Court grouped such cases into two,⁵⁷ *to wit*:

1. Group 1: *Reformina v. Tomol*,⁵⁸ *Philippine Rabbit Bus Lines v. Cruz*,⁵⁹ *Florendo v. Ruiz*,⁶⁰ and *National Power Corporation v. Angas*,⁶¹ and
2. Group 2: *Malayan Insurance Company v. Manila Port Service*,⁶² *Nakpil and Sons v. Court of Appeals*,⁶³ and *American Express International v. Intermediate Appellate Court*.⁶⁴

In Group 1, the main issue concerned the proper application of the 12% per annum legal interest rate under CBC No. 416, Series of 1974 and the 6% per annum legal interest rate under Article 2209 of the Civil Code. In these cases, the Court consistently held that CBC No. 416, Series of 1974, which imposed the legal interest rate of 12% per annum, applied only to a “loan or forbearance of money, goods, or credits” as well as to judgments

⁵⁴ *Id.* at 85-86.

⁵⁵ *Id.* at 86.

⁵⁶ *Id.*

⁵⁷ *Id.* at 93.

⁵⁸ *Reformina*, 139 SCRA 260.

⁵⁹ *Phil. Rabbit Bus Lines*, 143 SCRA 158.

⁶⁰ *Florendo*, 170 SCRA 461.

⁶¹ *Nat'l Power Corp.*, 208 SCRA 542.

⁶² *Malayan Ins. Co. v. Manila Port Serv.*, G.R. No. L-26700, 28 SCRA 65, May 15, 1969.

⁶³ *Nakpil & Sons v. CA*, G.R. No. L-47851, 144 SCRA 596, Oct. 3, 1986.

⁶⁴ *Am. Express Int'l v. IAC*, G.R. No. 70766, 167 SCRA 209, Nov. 9, 1988.

involving such a “loan or forbearance of money, goods, or credits.”⁶⁵ On the other hand, Article 2009 of the Civil Code, which provided for the legal interest rate of 6% per annum, governed transactions which involved the “payment of indemnities in the concept of damage arising from the breach or a delay in the performance of obligations in general.”⁶⁶ Moreover, in these cases, the legal interest rate of 6% per annum is applied “from the time the complaint is filed until the adjudged amount is fully paid.”⁶⁷

On the other hand, while Group 2 had the same ruling as regards the proper application of the rates of legal interest under CBC No. 416, Series of 1974 (12% per annum) and Article 2209 of the Civil Code (6% per annum), the rulings in these cases differed with respect to when legal interest begins to run.⁶⁸ According to the cases in Group 2, the running of the legal interest should not be from the time of the filing of the complaint until fully paid. Instead, legal interest should be imposed from the finality of the decision until the judgment amount is fully paid.⁶⁹

Given the conflicting rulings on how to compute interest, the Court constructed guidelines with the hope of providing uniformity and stability to future cases that dealt with the imposition of interest, *to wit*:

I. When an obligation, regardless of its source, *i.e.*, law, contracts, quasi-contracts, delicts or quasi-delicts is breached, the contravenor can be held liable for damages. The provisions under Title XVIII on “Damages” of the Civil Code govern in determining the measure of recoverable damages.

II. With regard particularly to an award of interest in the concept of actual and compensatory damages, the rate of interest, as well as the accrual thereof, is imposed, as follows:

1. When the obligation is breached, and it consists in the payment of a sum of money, *i.e.*, a loan or forbearance of money, the interest due should be that which may have been stipulated in writing. Furthermore, the interest due shall itself earn legal interest from the time it is judicially demanded. In the absence of stipulation, the rate of interest shall be 12% per annum to be computed from default, *i.e.*, from judicial or extrajudicial demand under

⁶⁵ *Eastern Shipping Lines*, 234 SCRA 7, 93-97.

⁶⁶ *Id.* at 94.

⁶⁷ *Id.*

⁶⁸ *Id.*

⁶⁹ *Id.*

and subject to the provisions of Article 1169 of the Civil Code.

2. When an obligation, not constituting a loan or forbearance of money, is breached, an interest on the amount of damages awarded may be imposed at the *discretion of the court* at the rate of 6% per annum. No interest, however, shall be adjudged on unliquidated claims or damages, except when or until the demand can be established with reasonable certainty. Accordingly, where the demand is established with reasonable certainty, the interest shall begin to run from the time the claim is made judicially or extrajudicially (Art. 1169, Civil Code), but when such certainty cannot be so reasonably established at the time the demand is made, the interest shall begin to run only from the date the judgment of the court is made (at which time the quantification of damages may be deemed to have been reasonably ascertained). The actual base for the computation of legal interest shall, in any case, be on the amount finally adjudged.
3. When the judgment of the court awarding a sum of money becomes final and executory, the rate of legal interest, whether the case falls under paragraph 1 or paragraph 2, above, shall be 12% per annum from such finality until its satisfaction, this interim period being deemed to be by then an equivalent to a forbearance of credit.⁷⁰

Applying the above-mentioned guidelines, the Court ruled:

WHEREFORE, the petition is partly GRANTED. The appealed decision is AFFIRMED with the MODIFICATION that the legal interest to be paid is SIX PERCENT (6%) on the amount due computed from the decision, dated 03 February 1988, of the court a quo. A TWELVE PERCENT (12%) interest, in lieu of SIX PERCENT (6%), shall be imposed on such amount upon finality of this decision until the payment thereof. SO ORDERED.⁷¹

Unfortunately, paragraph 3 of part II of the *Eastern Shipping Lines* guidelines “failed to qualify that for loans or forbearance of money, the prevailing legal interest should only apply in the absence of stipulated

⁷⁰ *Id.* at 95-97. (Citations omitted.)

⁷¹ *Id.* at 97.

interest.”⁷² Indeed, “[t]he stipulated interest is the law between the parties and should apply from the time of extrajudicial or judicial demand until full payment.”⁷³ Due to this omission, the Court in several rulings “imposed the stipulated interest on the adjudged amount until finality of the decision but applied the prevailing legal interest in lieu of the stipulated interest from finality of the decision until full payment of the obligation.”⁷⁴ These include the cases of *Foundation Specialists, Inc. v. Betonval Ready Concrete, Inc.*⁷⁵ (“*Foundation Specialists*”), *Suatengco v. Reyes*⁷⁶ (“*Suatengco*”), and *Gamboa, Rodriguez, Rivera & Co., Inc. v. Court of Appeals*⁷⁷ (“*Gamboa, Rodriguez, Rivera & Co*”).

In *Foundation Specialists*,⁷⁸ Foundation Specialists, Inc. (petitioner) and Betonval Ready Concrete, Inc. (respondent) entered into several contracts for the delivery of ready mixed concrete. Under such contracts, petitioner was to pay respondent within seven days after the latter presented the invoices. They agreed on a stipulated interest rate of 30% in case of overdue payments. Accordingly, respondent delivered the ready mixed concrete to petitioner. However, petitioner was unable to settle its outstanding balances. Hence, it proposed to respondent a payment schedule wherein it would be liable for late payments at 24% per annum. Respondent agreed. Despite paying according to the terms of its proposed schedule of payments, petitioner was unable to fully settle its obligation. Hence, respondent filed an action for sum of money and damages. The trial court ruled in favor of respondent.⁷⁹

On appeal, the CA held that petitioner should pay respondent the value of the unpaid ready mixed concrete at 24% per annum interest plus legal interest at 12% per annum.⁸⁰ Petitioner filed a petition for review with the Court, praying that it “decrease the rate of impossible interest on the PHP 1,114,203.34 award to Betonval, from 12% to 6% p.a. from date of

⁷² Lara’s Gifts & Decors, G.R. No. 225433.

⁷³ *Id.*

⁷⁴ *Id.* (Caps omitted.)

⁷⁵ *Foundation Specialists, Inc. v. Betonval Ready Concrete* [hereinafter “*Foundation Specialists*”], Inc., G.R. No. 170674, 596 SCRA 697, Aug. 4, 2009.

⁷⁶ *Suatengco v. Reyes* [hereinafter “*Suatengco*”], G.R. No. 162729, 574 SCRA 187, Dec. 17, 2008.

⁷⁷ *Gamboa, Rodriguez, Rivera & Co., Inc. v. CA* [hereinafter “*Gamboa, Rodriguez, Rivera & Co.*”], G.R. No. 117456, 458 SCRA 68, May 6, 2005.

⁷⁸ *Foundation Specialists*, 596 SCRA 697.

⁷⁹ *Id.* at 699-702.

⁸⁰ *Id.* at 703.

judicial demand or filing of the complaint until the full amount is paid.”⁸¹
The Court held:

It is clear that Betonval and FSI agreed on the payment of interest[.]

[B]etonval had reduced the impossible interest rate from 30% to 24% p.a. and this reduced interest rate was accepted, albeit impliedly, by FSI when it proposed a new schedule of payments and, in fact, actually made payments to Betonval with 24% p.a. interest. By its own actions, therefore, FSI is estopped from questioning the impossible rate of interest.

[T]he imposition of a 12% p.a. interest on the award to Betonval (in addition to the 24% p.a. interest) in the assailed judgment is proper. When the judgment of the court awarding a sum of money becomes final and executory, the rate of legal interest shall be 12% p.a. from such finality until its satisfaction, this interim period being deemed to be by then an equivalent to a forbearance of credit.⁸²

On the other hand, in *Suatengco*,⁸³ Carmencita O. Reyes (respondent) instituted an action for sum of money with damages against Spouses Soledad Leonor Peña and Antonio Esteban Suatengco (collectively, petitioners) before the trial court. Respondent claimed that Soledad borrowed money from her in order to settle her obligation to Philippine Phosphate Fertilizer Corporation. By reason thereof, petitioners executed a promissory note wherein they bound themselves to jointly and severally pay respondent PHP 1,336,313.00 in 31 monthly installments. However, petitioners were only able to make one payment.⁸⁴ The lower court ruled:

WHEREFORE, judgment is hereby rendered in favor of plaintiff and against defendants ordering defendants:

- (a) To pay plaintiff actual damages in the amount of PHP 1,321,313.00 plus interest at 12% per annum from May 31, 1994 representing the total outstanding balance of defendants’ indebtedness to plaintiff by virtue of the Promissory Note dated June 24, 1994.
- (b) To pay plaintiff moral damages in the amount of PHP 1,000,000.00;

⁸¹ *Id.*

⁸² *Id.* at 709.

⁸³ *Suatengco*, 574 SCRA 187.

⁸⁴ *Id.* at 189-91

- (c) To pay plaintiff attorney's fees in the amount of 20% of the sum collected; and
- (d) To pay costs of suit.⁸⁵

Petitioners appealed to the CA, questioning the award of attorney's fees. The CA upheld the award of attorney's fees equivalent to 20% of the balance of petitioners' obligation and lowered the amount of moral damages to PHP 200,000.⁸⁶

Before the Court, petitioners questioned the award of attorney's fees and the imposition of a 12% per annum interest. The Court ruled that it was improper for both the trial court and the CA to increase the award of attorney's fees despite the express stipulation contained in the promissory note, i.e. attorney's fees equivalent to 5% of the total outstanding indebtedness.⁸⁷

Following the *Eastern Shipping Lines* guidelines, the Court affirmed the amount of interest awarded by the lower courts, there being a written stipulation as to its rate,⁸⁸ *to wit*:

The stipulated interest in this case is 12% per annum. As of July 1994, the total indebtedness of petitioners amounted to PHP 1,321,313.00. From then on, the PHP 1,321,313.00 should have earned the stipulated interest of 12% per annum plus attorney's fees equivalent to 5% of the total outstanding indebtedness. However, once the judgment becomes final and executory and the amount adjudged is still not satisfied, legal interest at the rate of 12% applies until full payment. The rate of 12% per annum is proper because the interim period from the finality of judgment, awarding a monetary claim and until payment thereof, is deemed to be equivalent to a forbearance of credit. The actual base for the computation of this 12% interest is the amount due upon finality of this decision.⁸⁹

Lastly, in *Gamboa, Rodriguez, Rivera & Co.*,⁹⁰ Gamboa, Rodriguez, Rivera & Co., Inc. (GARORICO), Cifra & Company, Inc. (CIFRA), and Arca & Company, Inc. (ARCA) (collectively, petitioners) filed a complaint for recovery of proceeds of its sale before the trial court. It appeared that

⁸⁵ *Id.*

⁸⁶ *Id.* at 191-92.

⁸⁷ *Id.* at 192-95.

⁸⁸ *Id.* at 195-96.

⁸⁹ *Id.* at 195-97.

⁹⁰ *Gamboa, Rodriguez, Rivera & Co.*, 458 SCRA 68.

the Pampanga Sugar Mills (PASUMIL) issued sugar *quedans* to planters in the 1971-1972 crop year. For their part, the planters would either negotiate or sell their sugar *quedans* to various traders, among which were petitioners. However, in 1972, petitioners found out that their sugar *quedans* were “issued without any physical sugar to back them up.”⁹¹ In order “to solve this problem and to preserve the sanctity of sugar *quedans*,”⁹² the Sugar Quota Administration interceded by conferring with PASUMIL and the sugar traders who had “1971-1972 outstanding sugar *quedans*.”⁹³ In the conference, the parties agreed “that no *quedans* covering the mill’s production share of the 1972-1973 crop will be issued and that the sugar shall be made available to service said outstanding *quedans*.”⁹⁴ Nevertheless, for the 1973-1974 crop year, petitioners were “not able to withdraw their respective shares in the earmarked physical sugar.”⁹⁵ Subsequently, PNB took over PASUMIL. Consequently, “the physical sugar earmarked from the mill share of PASUMIL for crop year 1973-1974 was not distributed to the creditors of PASUMIL,”⁹⁶ including herein petitioners.⁹⁷

The trial court ruled in favor of petitioners.⁹⁸ Thereafter, both parties appealed to the CA, which affirmed the Decision of the trial court.⁹⁹ Petitioners then elevated the case to the Court and raised the issue of “whether the trial court was correct in ruling that the interest due petitioners should commence from the filing of the action in the trial court on October 19, 1981.”¹⁰⁰ The Court ruled:

[T]he stipulated 14% p.a. interest should start from the time the complaint was filed on October 19, 1981 until finality of this decision.

* * *

PASUMIL reneged on its obligation when it failed to fully honor the *quedans*. However, the parties gave PASUMIL an extension of the period within which to comply with its obligation. This was

⁹¹ *Id.* at 70.

⁹² *Id.*

⁹³ *Id.*

⁹⁴ *Id.*

⁹⁵ *Id.*

⁹⁶ *Id.*

⁹⁷ *Id.* at 71.

⁹⁸ *Id.* at 71-72.

⁹⁹ *Id.* at 72.

¹⁰⁰ *Id.*

crop year 1972-1973 (and the succeeding crop years) until the *quedans* were paid. In the interim, no interest accrued.

But when PNB sold the sugar already earmarked for petitioners, there was a breach of the agreement, thus entitling petitioners to payment of the stipulated interest of 14% per annum. From then on, demand became necessary. The filing of the complaint, being a judicial demand, reckoned the start of the accrual of interest, until finality of this decision.

Finally, as held in *Eastern Shipping Lines, Inc.*, the legal interest of 12% per annum shall be imposed from the time this judgment becomes final and executory, until full satisfaction.¹⁰¹

Notably, the above-mentioned rulings are in direct contravention of Article 2209 of the Civil Code, which provides:

If the obligation consists in the payment of a sum of money, and the debtor incurs in delay, the indemnity for damages, there being no stipulation to the contrary, shall be the payment of the interest agreed upon, and in the absence of stipulation, the legal interest, which is six per cent per annum.

Unmistakably, the interest rate agreed upon by the contracting parties constitutes the law between them, and thus, “should be applied until full payment of the obligation.”¹⁰² Article 1159 of the Civil Code provides that “obligations arising from contracts have the force of law between the contracting parties and should be complied with in good faith.” Moreover, Article 1956 of the Civil Code states that “no interest shall be due unless it has been expressly stipulated in writing.” It is important to note that contracting parties are at liberty to 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.”¹⁰³ Contracting parties are bound not only to the fulfillment of what has been expressly stipulated but also to all the consequences which, according to their nature, may be in keeping with good faith, usage, and law.¹⁰⁴

¹⁰¹ *Id.* at 75-77.

¹⁰² *Lara's Gifts & Decors*, G.R. No. 225433.

¹⁰³ *Id.*

¹⁰⁴ CIVIL CODE, art. 1315. “Contracts are perfected by mere consent, and from that moment the parties are bound not only to the fulfillment of what has been expressly stipulated but also to all the consequences which, according to their nature, may be in keeping with good faith, usage and law.”

In sum, unless the stipulated interest is excessive or unconscionable, “there is no legal basis for the reduction of the stipulated interest at any time until full payment of the principal amount.”¹⁰⁵ Evidently, “the stipulated interest remains in force until the obligation is satisfied.”¹⁰⁶ It is only in the absence of a stipulated interest when the legal interest shall apply.¹⁰⁷

B. Modified *Eastern Shipping Lines* Guidelines in *Nacar v. Gallery Frames*

Significantly, the rates of interest stated in the *Eastern Shipping Lines* guidelines were modified by BSP-MB Circular No. 799, Series of 2013.¹⁰⁸ BSP-MB Circular No. 799, Series of 2013 reduced the legal interest rate from 12% per annum to 6% per annum:

The Monetary Board, in its Resolution No. 796 dated 16 May 2013, approved the following revisions governing the rate of interest in the absence of stipulation in loan contracts, thereby amending Section 2 of Circular No. 905, Series of 1982:

Section 1. The rate of interest for the loan or forbearance of any money, goods or credits and the rate allowed in judgments, in the absence of an express contract as to such rate of interest, shall be six percent (6%) per annum.

Section 2. In view of the above, Subsection X305.1 of the Manual of Regulations for Banks and Sections 4305Q.1, 4305S.3 and 4303P.1 of the Manual of Regulations for Non-Bank Financial Institutions are hereby amended accordingly.

This Circular shall take effect on 1 July 2013.

Given the issuance of BSP-MB Circular No. 799, Series of 2013, the Court modified the *Eastern Shipping Lines* guidelines in *Nacar*.¹⁰⁹ In *Nacar*, the Court ruled that when the contracting parties failed to stipulate a rate of interest, the rate of legal interest for a “loan or forbearance of money, goods, or credits” and the rate allowed in judgments shall no longer be 12% per annum, but rather 6% per annum effective July 1, 2013. Because of this pronouncement, the Court no longer had to differentiate between an obligation consisting of a “loan or forbearance of money, goods, or credits”

¹⁰⁵ *Lara's Gifts & Decors*, G.R. No. 225433.

¹⁰⁶ *Id.*

¹⁰⁷ *Id.*

¹⁰⁸ *Id.*

¹⁰⁹ *Nacar*, 703 SCRA 439.

and any other monetary obligation for sums of money. Nonetheless, the new uniform legal interest rate of 6% per annum can only be applied prospectively, i.e. from July 1, 2013 onwards, and not retroactively.¹¹⁰

In *Nacar*, Dario Nacar (petitioner) filed a complaint for constructive dismissal against Gallery Frames and Felipe Bordey, Jr. (collectively, respondents) with the National Labor Relations Commission (NLRC).¹¹¹ On October 15, 1998, the Labor Arbiter (LA) ruled in favor of petitioner.¹¹² Consequently, “petitioner was awarded backwages and separation pay in lieu of reinstatement in the amount of PHP 158,919.92.”¹¹³ On appeal, the NLRC affirmed the Decision of the LA.¹¹⁴

Respondents appealed to the CA, but their appeal was denied. Hence, respondents sought affirmative relief from the Court. However, under its Resolution dated April 17, 2002, the Court found no reversible error on the part of the CA. An Entry of Judgment was later issued and thereafter, the case was referred back to the LA.¹¹⁵

Petitioner filed a Motion for Correct Computation. He contended that his backwages should be “computed from the date of his dismissal on January 24, 1997 up to the finality of the Resolution of the Supreme Court on May 27, 2002.”¹¹⁶ The Computation and Examination Unit of the NLRC recomputed the backwages of petitioner and “arrived at an updated amount in the sum of PHP 471,320.31.”¹¹⁷ Respondents filed a Motion to Quash Writ of Execution.¹¹⁸ According to respondents, “since the Labor Arbiter awarded separation pay of PHP 62,986.56 and limited backwages of PHP 95,933.36, no more recomputation is required to be made of the said awards.”¹¹⁹ They argued that “after the decision becomes final and executory, the same cannot be altered or amended anymore.”¹²⁰ The LA denied said motion. Hence, an Alias Writ of Execution was issued. The NLRC issued a Resolution granting the respondents’ appeal and ordering the recomputation of the judgment award.¹²¹ Thereafter, “an Entry of

¹¹⁰ *Id.* at 456.

¹¹¹ *Id.* at 443.

¹¹² *Id.*

¹¹³ *Id.*

¹¹⁴ *Id.* at 445.

¹¹⁵ *Id.*

¹¹⁶ *Id.*

¹¹⁷ *Id.*

¹¹⁸ *Id.* at 446.

¹¹⁹ *Id.*

¹²⁰ *Id.*

¹²¹ *Id.*

Judgment was issued declaring the Resolution of the NLRC to be final and executory.”¹²² In the meantime, petitioner moved for the issuance of an Alias Writ of Execution in order to effectuate the recomputed judgment award of PHP 471,320.¹²³

The case records were sent once more to the Computation and Examination Unit of the NLRC for recomputation. The judgment award was reassessed, arriving at the amount of PHP 147,560.19.¹²⁴ Thereafter, the LA issued an Alias Writ of Execution.¹²⁵ Consequently, petitioner filed a Manifestation and Motion contending that the judgment award should be recomputed to include the interest due.¹²⁶

The LA granted the motion “but only up to the amount of PHP 11,459.73”¹²⁷ on the ground that the October 15, 1998 Decision had already become final and executory.¹²⁸ Nevertheless, “since petitioner already received PHP 147,560.19, he is only entitled to the balance of PHP 11,459.73.”¹²⁹

Unsatisfied, petitioner filed an appeal before the NLRC, which the latter denied. Thus, petitioner sought recourse before the CA.¹³⁰ The CA denied the petition, ruling that because petitioner failed to appeal the October 15, 1998 Decision of the LA, “a belated correction thereof is no longer allowed.”¹³¹

Before the Court, petitioner argued that the CA erred in sustaining the Order of the LA.¹³² Petitioner argued that the Decision dated October 15, 1998 of the LA only became final and executory when the Resolution dated April 17, 2002 of the Court was entered in the Book of Entries on May 27, 2002.¹³³ Hence, “the reckoning point for the computation of the backwages and separation pay should be on May 27, 2002 and not when the decision of the Labor Arbiter was rendered on October 15, 1998.”¹³⁴

¹²² *Id.*

¹²³ *Id.*

¹²⁴ *Id.*

¹²⁵ *Id.* at 447.

¹²⁶ *Id.*

¹²⁷ *Id.*

¹²⁸ *Id.*

¹²⁹ *Id.*

¹³⁰ *Id.*

¹³¹ *Id.*

¹³² *Id.*

¹³³ *Id.*

¹³⁴ *Id.* at 448-49.

Furthermore, petitioner averred that he is also “entitled to the payment of interest from the finality of the decision until full payment by the respondents.”¹³⁵

The Court granted the petition, ruling:

[N]o essential change is made by a recomputation as this step is a necessary consequence that flows from the nature of the illegality of dismissal declared by the Labor Arbiter in that decision. A recomputation (or an original computation, if no previous computation has been made) is a part of the law [...] that is read into the decision. By the nature of an illegal dismissal case, the reliefs continue to add up until full satisfaction[.] The recomputation of the consequences of illegal dismissal upon execution of the decision does not constitute an alteration or amendment of the final decision being implemented. The illegal dismissal ruling stands; only the computation of monetary consequences of this dismissal is affected, and this is not a violation of the principle of immutability of final judgments.¹³⁶

With respect to the payment of interest, the Court recalled the *Eastern Shipping Lines* guidelines on the imposition of interest and held:

Thus, from the foregoing, in the absence of an express stipulation as to the rate of interest that would govern the parties, the rate of legal interest for loans or forbearance of any money, goods or credits and the rate allowed in judgments shall no longer be twelve percent (12%) per annum – as reflected in the case of *Eastern Shipping Lines* and Subsection X305.1 of the Manual of Regulations for Banks and Sections 4305Q.1, 4305S.3 and 4303P.1 of the Manual of Regulations for Non-Bank Financial Institutions, before its amendment by BSP-MB Circular No. 799 – but will now be six percent (6%) per annum effective July 1, 2013. It should be noted, nonetheless, that the new rate could only be applied prospectively and not retroactively. Consequently, the twelve percent (12%) per annum legal interest shall apply only until June 30, 2013. Come July 1, 2013 the new rate of six percent (6%) per annum shall be the prevailing rate of interest when applicable.

Corollarily, in the recent case of *Advocates for Truth in Lending, Inc. and Eduardo B. Olaguer v. Bangko Sentral Monetary Board*, this Court affirmed the authority of the BSP-MB to set interest rates and to

¹³⁵ *Id.* at 449.

¹³⁶ *Id.* at 452.

issue and enforce Circulars when it ruled that “the BSP-MB may prescribe the maximum rate or rates of interest for all loans or renewals thereof or the forbearance of any money, goods or credits, including those for loans of low priority such as consumer loans, as well as such loans made by pawnshops, finance companies and similar credit institutions. It even authorizes the BSP-MB to prescribe different maximum rate or rates for different types of borrowings, including deposits and deposit substitutes, or loans of financial intermediaries.”

Nonetheless, with regard to those judgments that have become final and executory prior to July 1, 2013, said judgments shall not be disturbed and shall continue to be implemented applying the rate of interest fixed therein.¹³⁷

To sum up and for future guidance, the Court ruled that the *Eastern Shipping Lines* guidelines are accordingly modified to embody BSP-MB Circular No. 799, Series of 2013 in the wise:

I. When an obligation, regardless of its source, *i.e.*, law, contracts, quasi-contracts, delicts or quasi-delicts is breached, the contravenor [sic] can be held liable for damages. The provisions under Title XVIII on “Damages” of the Civil Code govern in determining the measure of recoverable damages.

II. With regard particularly to an award of interest in the concept of actual and compensatory damages, the rate of interest, as well as the accrual thereof, is imposed, as follows:

1. When the obligation is breached, and it consists in the payment of a sum of money, *i.e.*, a loan or forbearance of money, the interest due should be that which may have been stipulated in writing. Furthermore, the interest due shall itself earn legal interest from the time it is judicially demanded. In the absence of stipulation, the rate of interest shall be 6% per annum to be computed from default, *i.e.*, from judicial or extrajudicial demand under and subject to the provisions of Article 1169 of the Civil Code.
2. When an obligation, not constituting a loan or forbearance of money, is breached, an interest on the amount of damages awarded may be imposed at the *discretion of the court* at the rate of 6% per annum. No

¹³⁷ *Id.* at 456-57. (Citations omitted.)

interest, however, shall be adjudged on unliquidated claims or damages, except when or until the demand can be established with reasonable certainty. Accordingly, where the demand is established with reasonable certainty, the interest shall begin to run from the time the claim is made judicially or extrajudicially (Art. 1169, Civil Code), but when such certainty cannot be so reasonably established at the time the demand is made, the interest shall begin to run only from the date the judgment of the court is made (at which time the quantification of damages may be deemed to have been reasonably ascertained). The actual base for the computation of legal interest shall, in any case, be on the amount finally adjudged.

3. When the judgment of the court awarding a sum of money becomes final and executory, the rate of legal interest, whether the case falls under paragraph 1 or paragraph 2, above, shall be 6% per annum from such finality until its satisfaction, this interim period being deemed to be by then an equivalent to a forbearance of credit.

And, in addition to the above, judgments that have become final and executory prior to July 1, 2013, shall not be disturbed and shall continue to be implemented applying the rate of interest fixed therein.¹³⁸

Essentially, the Court altered the *Eastern Shipping Lines* guidelines by changing the rate of legal interest for a “loan or forbearance of money, goods, or credits” from 12% per annum to 6% per annum.

However, like in *Eastern Shipping*, the Court “failed to qualify that for loans or forbearance of money, the prevailing legal interest should only apply in the absence of stipulated interest.”¹³⁹ To reiterate, this is a violation of Article 2209 of the Civil Code. Furthermore, despite the conflicting jurisprudence regarding the subject matter, the Court did not touch upon the definition and scope of the term “forbearance of money, goods, or credits.”

¹³⁸ *Id.*

¹³⁹ *Lara's Gifts & Decors*, G.R. No. 225433.

II. PRESENT RULES ON THE IMPOSITION OF INTEREST UNDER *LARA'S GIFTS & DECORS, INC. V. MIDTOWN INDUSTRIAL SALES, INC.*

A. The Case

Due to the failure of the Court to address the inadequacies of the *Eastern Shipping* guidelines through the *Nacar* guidelines, it was necessary that a new set of rules concerning the imposition of interest be promulgated. In hopes of settling once and for all the controversial topic of the computation of interest, the Court, in the recent case of *Lara's Gifts & Decors*,¹⁴⁰ further revised the guidelines on the imposition of interest. Notably, the Court ventured into several discussions on the nuances related to the concept of interest. *First*, it discussed the validity of stipulated interest rates. *Second*, it tackled the imposition of legal interest. *Third*, it distinguished Article 2209 of the Civil Code from Articles 2210 and 2211 of the Civil Code. *Fourth*, it tackled the amendment of the legal interest rate under Article 2209 of the Civil Code. *Fifth*, it determined the correct definition and scope of the term “forbearance of money, goods, or credits.”

Lara's Gifts & Decors, Inc. (petitioner) was engaged in the business of producing and selling handicraft products, while *Midtown Industrial Sales, Inc.* (respondent) was engaged in the business of selling industrial and construction materials. Petitioner was a customer of respondent.¹⁴¹ Respondent alleged that petitioner purchased from it industrial and construction materials in the total amount of PHP 1,263,104.22.¹⁴² Notably, these purchases were made on a 60-day credit term with a stipulation that 24% interest per annum would be charged on overdue accounts.¹⁴³ The checks issued by petitioner in favor of respondent to pay for its purchases were dishonored. Despite repeated demands, petitioner failed to answer for its outstanding indebtedness. Hence, respondent filed a complaint for sum of money before the trial court.¹⁴⁴

In its Answer, petitioner acknowledged that it “purchased from respondent, on a 60-day credit term, various industrial and construction materials in the total amount of PHP 1,263,104.22.”¹⁴⁵ However, petitioner contended that the deliveries were mostly “substandard and of poor

¹⁴⁰ *Id.*

¹⁴¹ *Id.*

¹⁴² *Id.*

¹⁴³ *Id.*

¹⁴⁴ *Id.*

¹⁴⁵ *Id.*

quality.”¹⁴⁶ According to petitioner, “the checks it issued for payment were not for value because not all of the materials delivered by respondent were received in good order and condition.”¹⁴⁷

The trial court held:

[P]etitioner failed to prove that the deliveries made by respondent did not comply with the required specifications. Other than the self-serving denials of its witnesses, no other evidence was offered by petitioner to prove that the materials delivered were substandard. On the other hand, the amount of PHP 1,263,104.22 claimed by respondent against petitioner was supported by the sales invoices and postdated checks. The trial court also held that the stipulated 24% interest per annum on overdue accounts is not unconscionable.¹⁴⁸

On appeal, the CA affirmed the Decision of the trial court.¹⁴⁹ It held that “petitioner admitted issuing postdated checks as payment for the materials purchased from respondent”¹⁵⁰ and “failed to prove that the materials delivered were substandard and of poor quality to justify its claim that the checks were issued without valuable consideration.”¹⁵¹ With respect to the 24% per annum interest imposed, it “found implausible petitioner’s claim that it was placed in a disadvantageous position.”¹⁵² The 24% per annum interest was clearly stated in the sales invoices.¹⁵³

B. The Ruling of the Court

1. Validity of Stipulated Interest Rate

Upon reaching the Court, petitioner questioned the 24% per annum interest. The Court cited *Asian Construction and Development Corporation v. Cathay Pacific Steel Corporation*¹⁵⁴ (“*Asian Construction and Development Corporation*”) to uphold the stipulated interest. In *Asian Construction and Development Corporation*, the Court sustained the stipulated interest rate of

¹⁴⁶ *Id.*

¹⁴⁷ *Id.*

¹⁴⁸ *Id.*

¹⁴⁹ *Id.*

¹⁵⁰ *Id.*

¹⁵¹ *Id.*

¹⁵² *Id.*

¹⁵³ *Id.*

¹⁵⁴ *Asian Constr. & Dev. Corp. v. Cathay Pac. Steel Corp.*, G.R. No. 167942, 622 SCRA 122, June 29, 2010.

24% per annum which was indicated in the sales invoices. It explained that because Asian Construction and Development Corporation (petitioner) did not object to the stipulations clearly stated in the sales invoice, it was obligated to pay both the agreed selling price and the interest of 24% per annum on overdue accounts and the 25% of the unpaid invoice for attorney's fees.

In *Lara's Gifts & Decor*, the Court held that petitioner, which had been doing business for almost three decades and had been purchasing industrial and construction materials from respondent for more than a decade, cannot claim that it was tricked into agreeing to the 24% per annum interest which was plainly indicated in the sales invoices. The Court likewise pointed out that it had already previously ruled in several cases that a stipulated interest of 24% per annum is not excessive or unconscionable and, thus, is valid and binding.¹⁵⁵

2. Legal Interest

Concerning legal interest, the Court stressed that if the contracting parties stipulated their preferred interest, then such stipulated interest shall apply and not legal interest, as incorrectly stated under both the *Eastern Shipping Lines* and *Nacar* guidelines. However, the stipulated interest must not be excessive or unconscionable.¹⁵⁶ Verily, “[t]he stipulated interest shall be applied until full payment of the obligation because that is the law between the parties.”¹⁵⁷ Evidently, legal interest “only applies in the absence of stipulated interest.”¹⁵⁸

The aforesaid is in accordance with Article 2209 of the Civil Code:

Article 2209. If the obligation consists in the payment of a sum of money, and the debtor incurs in delay, the indemnity for damages, there being no stipulation to the contrary, shall be the payment of the interest agreed upon, and in the absence of stipulation, the legal interest, which is six per cent per annum.

In fact, BSP-MB Circular No. 799 is clear in stating that the “legal interest applies only in the absence of stipulated interest in loan contracts.”¹⁵⁹

¹⁵⁵ *Lara's Gifts & Decor*, G.R. No. 225433.

¹⁵⁶ *Id.*

¹⁵⁷ *Id.*

¹⁵⁸ *Id.*

¹⁵⁹ *Id.*

Section 1 of BSP-MB Circular No. 799 states:

Section 1. The rate of interest for the loan or forbearance of any money, goods or credits and the rate allowed in judgments, in the absence of an express contract as to such rate of interest, shall be six percent (6%) per annum.

The Court likewise clarified that compounding of interest is only allowed when the same is “expressly agreed upon in writing by the parties or mandated by law or regulation.”¹⁶⁰

Notably, Section 5 of the Usury Law, as amended by PD No. 116, expressly provides:

Section 5. In computing the interest on any obligation, promissory note or other instrument or contract, compound interest shall not be reckoned, except by agreement: Provided, That whenever compound interest is agreed upon, the effective rate of interest charged by the creditor shall not exceed the equivalent of the maximum rate prescribed by the Monetary Board, or, in default thereof, whenever the debt is judicially claimed, in which last case it shall draw six per centum per annum interest or such rate as may be prescribed by the Monetary Board. No person or corporation shall require interest to be paid in advance for a period of not more than one year: Provided, however, That whenever interest is paid in advance, the effective rate of interest charged by the creditor shall not exceed the equivalent of the maximum rate prescribed by the Monetary Board.

Because it is “more burdensome than simple interest, compounded interest must be expressly stipulated by the parties or mandated by law or regulation.”¹⁶¹

3. Article 2209 of the Civil Code versus Articles 2210 and 2211 of the Civil Code

The Court likewise distinguished the application of Article 2209 of the Civil Code from Articles 2210 and 2211 of the Civil Code.¹⁶²

¹⁶⁰ *Id.*

¹⁶¹ *Id.*

¹⁶² *Id.*

Articles 2210 and 2211 of the Civil Code provide:

Article 2210. Interest may, in the discretion of the court, be allowed upon damages awarded for breach of contract.

Article 2211. In crimes and quasi-delicts, interest as a part of the damages may, in a proper case, be adjudicated in the discretion of the court.

The Court held that Article 2209 of the Civil Code applies only to a “loan or forbearance of money, goods, or credits” which arise out of “obligations consisting in the payment of a sum of money, and the debtor incurs in delay.”¹⁶³ Hence, Article 2209 of the Civil Code only operates when there is a debtor-creditor relationship. Moreover, the payment of interest in Article 2209 of the Civil Code is mandatory.¹⁶⁴

In contrast, Articles 2210 and 2211 of the Civil Code only apply to obligations other than a “loan or forbearance of money, goods, or credits,” i.e. those obligations that do not involve the payment of a sum of money. In this scenario, there is no debtor-creditor relationship. Furthermore, the payment of interest in Articles 2210 and 2211 of the Civil Code is discretionary.¹⁶⁵ Particularly, “[t]he interest imposed in the discretion of the court will be the prevailing legal interest prescribed by the *Bangko Sentral ng Pilipinas*.”¹⁶⁶

Nonetheless, in his concurring and dissenting opinion of *Lara’s Gifts & Decors*,¹⁶⁷ Justice Alfredo Benjamin S. Caguioa disagreed with these pronouncements.

4. Amendment of the Legal Interest Rate in Article 2209 of the Civil Code

To recapitulate, on February 24, 1916, the Usury Law was enacted, which fixed the legal interest at 6% per annum for a “loan or forbearance of money, goods, or credits” and judgments. This legal interest rate is imposed when the contracting parties did not stipulate a preferred interest.

¹⁶³ *Id.*

¹⁶⁴ *Id.*

¹⁶⁵ *Id.*

¹⁶⁶ *Id.*

¹⁶⁷ *Id.* (Caguioa, J., concurring and dissenting).

Thereafter, on June 18, 1949, the Civil Code was enacted and took effect the following year. Article 2209 of the Civil Code declared that the legal interest rate in obligations to pay a sum of money is 6% per annum when the debtor incurs in delay. Article 2209 of the Civil Code applies to a “loan or forbearance of money, goods, or credits.” This legal interest rate is applicable when there is no stipulated interest. Subsequently, on January 29, 1973, PD No. 116 was issued, which amended the Usury Law and fixed the legal interest rate for a “loan or forbearance of money, goods, or credits” and judgments at 6% per annum “or such rate as may be prescribed by the Monetary Board of the Central Bank of the Philippines.” This legal interest rate operates in the absence of a stipulated interest.¹⁶⁸

The Court discussed the amendment of the 6% per annum legal interest rate under Article 2209 of the Civil Code by PD No. 116, *to wit*:

Section 11 of P.D. No. 116 states: “All Acts and parts of Acts inconsistent with the provisions of this Decree are hereby repealed.” This repealing clause applied to Acts, Commonwealth Acts, and Republic Acts, including Article 2209 of Republic Act No. 386 (Civil Code of the Philippines). When P.D. No. 116 says “[a]ll Acts and parts of Acts,” it does not mean only Act No. 2655 (Usury Law) but all other Acts, without exception.

P.D. No. 116 was obviously intended to amend all laws prescribing the rate of legal interest in the absence of stipulated interest. The Whereas clauses of P.D. No. 116 state that “the monetary authorities have recognized the need to amend the present Usury Law to allow for more flexible interest rate ceilings that would be more responsive to the requirements of changing economic conditions,” and that “the availability of adequate capital resources is, among other factors, a decisive element in the achievement of the declared objective of accelerating the growth of the national economy.” Thus, P.D. No. 116 amended all laws, including Article 2209 of the Civil Code, prescribing the rate of legal interest to allow the *Bangko Sentral ng Pilipinas* to calibrate the legal interest rate to meet changing economic conditions and to accelerate the growth of the national economy. If P.D. No. 116 did not amend Article 2209, then all “obligations consisting in the payment of a sum of money,” which is the all-encompassing coverage of Article 2209 applying to all loans or forbearance of money, goods, credits or judgments, would still be subject to the fixed 6% legal interest rate. This would prevent the *Bangko Sentral*

¹⁶⁸ *Lara's Gifts & Decors*, G.R. No. 225433.

ng *Pilipinas* from calibrating the legal interest to meet changing economic conditions and to accelerate the growth of the national economy.

Thus, the legal interest referred to in Article 2209 of the Civil Code is now 6% *per annum* or as may be fixed by the Monetary Board of the Bangko Sentral ng Pilipinas pursuant to the Usury Law, as amended by PD 116.¹⁶⁹

5. *Forbearance of Money, Goods, or Credits*

Notwithstanding the conflicting jurisprudence regarding the topic, the Court failed to address the appropriate definition and scope of the term “forbearance of money, goods, or credits” in both *Eastern Shipping Lines*¹⁷⁰ and *Nacar*.¹⁷¹ Hence, in order to ensure the correct application of the rules on interest, the Court discussed the proper definition and scope of this term in *Lara’s Gifts & Decors*.¹⁷²

With reference to the Usury Law, the term “forbearance” means “a contractual obligation of lender or creditor to refrain, during a given period of time, from requiring the borrower or debtor to repay a loan or debt then due and payable.”¹⁷³ By reason of this forbearance, “the parties often agree on the payment of interest on the amount due.”¹⁷⁴

Importantly, in *Estores*,¹⁷⁵ the Court ruled that the phrase “forbearance of money, goods, or credits” has a “separate meaning from a loan.” The Court, citing *Crismina Garments, Inc. v. Court of Appeals*¹⁷⁶ (“*Crismina Garments?*”), emphasized that the term “forbearance of money, goods, or credits” refers to “arrangements other than loan agreements, where a person acquiesces to the temporary use of his money, goods or credits pending happening of certain events or fulfillment of certain conditions.”

¹⁶⁹ *Id.* (Emphasis and citations omitted.)

¹⁷⁰ *Eastern Shipping Lines*, 234 SCRA 78.

¹⁷¹ *Nacar*, 703 SCRA 439.

¹⁷² *Lara’s Gifts & Decors*, G.R. No. 225433, August 28, 2019.

¹⁷³ *Id.* citing *Land Bank of the Phil. v. West Bay Coll., Inc.*, 808 Phil. 712, Apr. 17, 2017; *Intl. Container Terminal Serv., Inc. v. FGU Ins. Corp.*, 604 Phil. 380, Apr. 24, 2009; and *Crismina Garments, Inc. v. CA* [hereinafter “*Crismina Garments?*”], 363 Phil. 701, Mar. 9, 1999.

¹⁷⁴ *Id.*

¹⁷⁵ *Estores*, 670 SCRA 95.

¹⁷⁶ *Crismina Garments*, 363 Phil. 701.

The Court explained in *Estores*:

The contract involved in this case is admittedly not a loan but a Conditional Deed of Sale. However, the contract provides that the seller (petitioner) must return the payment made by the buyer (respondent-spouses) if the conditions are not fulfilled. There is no question that they have in fact, not been fulfilled as the seller (petitioner) has admitted this. Notwithstanding demand by the buyer (respondent-spouses), the seller (petitioner) has failed to return the money and should be considered in default from the time that demand was made on September 27, 2000.

Even if the transaction involved a Conditional Deed of Sale, can the stipulation governing the return of the money be considered as a forbearance of money which required payment of interest at the rate of 12%? We believe so.

In *Crismina Garments, Inc. v. Court of Appeals*, “forbearance” was defined as a “contractual obligation of lender or creditor to refrain during a given period of time, from requiring the borrower or debtor to repay a loan or debt then due and payable.” This definition describes a loan where a debtor is given a period within which to pay a loan or debt. In such case, “forbearance of money, goods or credits” will have no distinct definition from a loan. We believe, however, that the phrase “forbearance of money, goods or credits” is meant to have a separate meaning from a loan, otherwise there would have been no need to add that phrase as a loan is already sufficiently defined in the Civil Code. Forbearance of money, goods or credits should therefore refer to arrangements other than loan agreements, where a person acquiesces to the temporary use of his money, goods or credits pending happening of certain events or fulfillment of certain conditions. In this case, the respondent-spouses parted with their money even before the conditions were fulfilled. They have therefore allowed or granted forbearance to the seller (petitioner) to use their money pending fulfillment of the conditions. They were deprived of the use of their money for the period pending fulfillment of the conditions and when those conditions were breached, they are entitled not only to the return of the principal amount paid, but also to compensation for the use of their money. And the compensation for the use of their money, absent any stipulation, should be the same rate of legal interest applicable to a loan since the use or deprivation of funds is similar to a loan.¹⁷⁷

¹⁷⁷ *Lara's Gifts & Decors*, G.R. No. 225433, citing *Estores*, 670 SCRA 95, 104-106. (Emphasis omitted.)

As previously mentioned, the Court enunciated in *Reformina*¹⁷⁸ that the Usury Law concerns “interest on (1) loans; (2) forbearance of any money, goods or credits; and (3) the rate allowed in judgments.”¹⁷⁹ It further clarified that the term “judgments” refers to “judgments in litigations involving loans or forbearance of any money, goods or credits.”¹⁸⁰ As declared in the *Eastern Shipping Lines* guidelines, the “finality [of judgment] until its satisfaction [is a] period being deemed to be by then an equivalent to a forbearance of credit”¹⁸¹ or a forbearance of money.

PD No. 116 amended the Usury Law as follows:

Section 1. Section one of Act Numbered two thousand six hundred fifty-five is hereby amended to read as follows:

Section 1. The rate of interest for the loan or forbearance of any money, goods, or credits and the rate allowed in judgments, in the absence of express contract as to such rate of interest, shall be six per centum per annum or such rate as may be prescribed by the Monetary Board of the Central Bank of the Philippines for that purpose in accordance with the authority hereby granted.

Section 2. The same Act is hereby amended by adding the following section immediately after section one thereof, which reads as follows:

Section 1-a. The Monetary Board is hereby authorized to prescribe the maximum rate or rate of interest for the loan or renewal thereof or the forbearance of any money, goods or credits, and to chance [sic] such rate or rates whenever warranted by prevailing economic and social conditions: Provided, That such changes shall not be made oftener than once every twelve months.

In the exercise of the authority herein granted, the Monetary Board may prescribe higher maximum rates for consumer loans or renewals thereof as well as loans made by pawnshops, finance companies and other similar credit institutions although the rates prescribed for these institutions need not necessarily be uniform.

* * *

¹⁷⁸ *Reformina*, 139 SCRA 260, 265.

¹⁷⁹ *Id.*

¹⁸⁰ *Id.*

¹⁸¹ *Eastern Shipping Lines*, 234 SCRA 78, 97.

Section 7. Section five of the same Act is hereby amended to read as follows:

Section 5. In computing the interest on any obligation, promissory note or other instrument or contract, compound interest shall not be reckoned, except by agreement: Provided, That whatever compound interest is agreed upon, the effective rate of interest charged by the creditor shall not exceed the equivalent of the maximum rate prescribed by the Monetary Board, or, in default thereof, whenever the debt is judicially claimed, in which last case it shall draw six per centum per annum interest or such rate as may be prescribed by the Monetary Board. No person or corporation shall require interest to be paid in advance for a period of not more than one year: Provided, however, That whenever interest is paid in advance, the effective rate of interest charged by the creditor shall not exceed the equivalent of the maximum rate prescribed by the Monetary Board.

Given the above-mentioned, the Court held in *Lara's Gifts & Decors*:

Clearly, under the law and jurisprudence, the prevailing legal interest prescribed by the *Bangko Sentral ng Pilipinas* applies, in the absence of stipulated interest, on the following: (1) loans; (2) forbearance of any money, goods or credits; and (3) judgments in litigations involving loans or forbearance of money, goods or credits. It should be noted that under Section 1 of P.D. No.116, the prevailing legal interest prescribed by the *Bangko Sentral ng Pilipinas* applies to "judgments" in the absence of stipulated interest.¹⁸²

Markedly, the Court, using the definition in *Estores*, declared that forbearance of goods "includes the sale of goods on installment, requiring periodic payment of money to the creditor,"¹⁸³ while forbearance of credits "includes the sale of anything on credit, where the full amount due can be paid at a date after the sale."¹⁸⁴

Taking into consideration the adoption of the definition in *Estores* of the phrase "forbearance of money, goods, or credits," the Court reiterated that "the general rule is that the interest stipulated by the parties shall apply, provided it is not excessive and unconscionable."¹⁸⁵ When there is no stipulated interest, the prevailing legal interest prescribed by the BSP

¹⁸² *Lara's Gifts & Decors*, G.R. No. 225433.

¹⁸³ *Id.*

¹⁸⁴ *Id.*

¹⁸⁵ *Id.*

applies.¹⁸⁶ Notwithstanding the majority ruling of the Court, Justice Caguioa discussed in his concurring and dissenting opinion¹⁸⁷ why the adoption of the definition and scope of the term “forbearance of money, goods, or credits” in *Estores* is incorrect.

6. *Lara’s Gifts & Decors Guidelines*

To summarize, the guidelines on the imposition of interest as provided in both *Eastern Shipping Lines* and *Nacar* were further modified:

With regard to an award of interest in the concept of actual and compensatory damages, the rate of interest, as well as the accrual thereof, is imposed, as follows:

1. When the obligation is breached, and it consists in the payment of a sum of money, *i.e.*, a loan or forbearance of money, goods, credits or judgments, the interest due shall be that which is stipulated by the parties in writing, provided it is not excessive and unconscionable, which, in the absence of a stipulated reckoning date, shall be computed from default, *i.e.*, from extrajudicial or judicial demand in accordance with Article 1169 of the Civil Code, UNTIL FULL PAYMENT, without compounding any interest unless compounded interest is expressly stipulated by the parties, by law or regulation. Interest due on the principal amount accruing as of judicial demand shall SEPARATELY earn legal interest at the prevailing rate prescribed by the *Bangko Sentral ng Pilipinas*, from the time of judicial demand UNTIL FULL PAYMENT.
2. In the absence of stipulated interest, in a loan or forbearance of money, goods, credits or judgments, the rate of interest on the principal amount shall be the prevailing legal interest prescribed by the *Bangko Sentral ng Pilipinas*, which shall be computed from default, *i.e.*, from extrajudicial or judicial demand in accordance with Article 1169 of the Civil Code, UNTIL FULL PAYMENT, without compounding any interest unless compounded interest is expressly stipulated by law or regulation. Interest due on the principal amount accruing

¹⁸⁶ *Id.*

¹⁸⁷ *Id.* (Caguioa, J., concurring and dissenting).

as of judicial demand shall SEPARATELY earn legal interest at the prevailing rate prescribed by the *Bangko Sentral ng Pilipinas*, from the time of judicial demand UNTIL FULL PAYMENT.

3. When the obligation, not constituting a loan or forbearance of money, goods, credits or judgments, is breached, an interest on the amount of damages awarded may be imposed *in the discretion of the court* at the prevailing legal interest prescribed by the *Bangko Sentral ng Pilipinas*, pursuant to Articles 2210 and 2211 of the Civil Code. No interest, however, shall be adjudged on unliquidated claims or damages until the demand can be established with reasonable certainty. Accordingly, where the amount of the claim or damages is established with reasonable certainty, the prevailing legal interest shall begin to run from the time the claim is made extrajudicially or judicially (Art. 1169, Civil Code) UNTIL FULL PAYMENT, but when such certainty cannot be so reasonably established at the time the demand is made, the interest shall begin to run only from the date of the judgment of the trial court (at which time the quantification of damages may be deemed to have been reasonably ascertained) UNTIL FULL PAYMENT. The actual base for the computation of the interest shall, in any case, be on the principal amount finally adjudged, without compounding any interest unless compounded interest is expressly stipulated by law or regulation.¹⁸⁸

7. Application of the Lara's Gifts & Decors Guidelines

The Court applied the new guidelines on the imposition of interest as follows:

This case involves a forbearance of credit wherein petitioner was granted a 60-day credit term on its purchases, with the condition that a 24% interest per annum would be charged on all accounts overdue. Since there was an extrajudicial demand before the complaint was filed, interest on the amount due begins to run not

¹⁸⁸ *Lara's Gifts & Decors*, G.R. No. 225433. (Emphasis and citations omitted.)

from the filing of the complaint but from the date of such extrajudicial demand. Thus, the unpaid principal obligation of PHP 1,263,104.22 shall earn the stipulated interest of 24% per annum from the date of extrajudicial demand on 22 January 2008 until full payment.

Furthermore, in accordance with Article 2212 of the Civil Code, the 24% interest per annum due on the principal amount accruing as of the judicial demand shall earn legal interest at the rate of 12% per annum from the date of judicial demand on 5 February 2008 until 30 June 2013, and thereafter at the rate of 6% per annum from 1 July 2013 until full payment. From the date of judicial demand on 5 February 2008 until 30 June 2013, the prevailing rate of legal interest was 12% per annum. The 6% per annum legal interest prescribed under BSP-MB Circular No. 799 took effect on 1 July 2013 and could only be applied prospectively. The PHP 50,000.00 attorney's fees shall also earn legal interest at the rate of 6% per annum from the finality of this Decision until full payment.¹⁸⁹

The dispositive portion of *Lara's Gifts & Decors* states:

WHEREFORE, the Decision of the Court of Appeals [...] affirming the [...] Decision of the Regional Trial Court [...] is AFFIRMED with MODIFICATION, as follows:

Petitioner Lara's Gifts & Decors, Inc. is ordered to pay respondent Midtown Industrial Sales, Inc. the following:

1. ONE MILLION TWO HUNDRED SIXTY THREE THOUSAND ONE HUNDRED FOUR PESOS and 22/100 (PHP 1,263,104.22) representing the principal amount plus stipulated interest at 24% *per annum* to be computed from 22 January 2008, the date of extrajudicial demand, until full payment.
2. Legal interest on the 24% *per annum* interest due on the principal amount accruing as of judicial demand, at the rate of 12% *per annum* from the date of judicial demand on 5 February 2008 until 30 June 2013, and thereafter at the rate of 6% *per annum* from 1 July 2013 until full payment.

¹⁸⁹ *Id.* (Citations omitted)

3. The sum of FIFTY THOUSAND PESOS (PHP 50,000.00) as attorney's fees, plus legal interest thereon at the rate of 6% *per annum* to be computed from the finality of this Decision until full payment.
4. Cost of the suit.

SO ORDERED.¹⁹⁰

C. Dissenting Opinions

1. *Article 2209 of the Civil Code versus Articles 2210 and 2211 of the Civil Code*

Contrary to the majority, Justice Caguioa opined in his concurring and dissenting opinion:¹⁹¹

[A]rticle 2209 does not distinguish between monetary obligations that arise from loans or forbearances of money, goods, or credit and monetary obligations that do not. *The Article unequivocally covers ALL obligations that consist in the payment of a sum of money and it does not distinguish as to the particular source of the obligation.* [...] What is paramount is that the obligation consists in the payment of a sum of money and that the debtor incurs delay in the payment thereof.

* * *

The applicability of Article 2209 to all obligations consisting in the payment of a sum of money has been consistently recognized by the Supreme Court. The Court, in *Castelo v. Court of Appeals*, explained:

[A]rticle 2209 governs transactions involving the payment of indemnity in the concept of damages arising from delay in the discharge of obligations consisting of the payment of a sum of money. The "obligation consisting in the payment of a sum of money" referred to in Article 2209 is not confined to a loan or forbearance of money.¹⁹²

2. *Forbearance of Money, Goods, or Credits*

For reference, in *Lara's Gifts & Decors*,¹⁹³ the Court made use of the definition of the phrase "forbearance of money, goods, or credits" in

¹⁹⁰ *Id.* (Emphasis omitted.)

¹⁹¹ *Id.* (Caguioa, J., *concurring and dissenting*).

¹⁹² *Id.* (Emphasis and citations from the original omitted. Emphasis supplied.)

¹⁹³ *Lara's Gifts & Decors*, G.R. 225433.

Estores.¹⁹⁴ In *Estores*, the Court held that the term “forbearance of money, goods, or credits” has a “separate meaning from a loan.” The Court, citing *Crismina Garments*,¹⁹⁵ highlighted that the phrase “forbearance of money, goods, or credits” refers to “arrangements other than loan agreements, where a person acquiesces to the temporary use of his money, goods or credits pending happening of certain events or fulfillment of certain conditions.”

Markedly, Justice Caguioa discussed why the adoption of the definition and scope of the term “forbearance of money, goods, or credits,” as stated in *Estores*, is incorrect.

At the onset, Justice Caguioa confirmed that there has been confusion as to the precise scope and definition of the phrase “forbearance of money, goods, or credits” because of the conflicting jurisprudence regarding the subject matter.¹⁹⁶ He emphasized that the Court has fluctuated with respect to the applicable legal interest rate—whether the rate of 12% per annum under CBC No. 416, Series of 1974 or the rate of 6% per annum under Article 2209 of the Civil Code—for monetary claims arising out of contracts of sale, services, and employment,¹⁹⁷ the payment of just compensation in expropriation proceedings,¹⁹⁸ and returns, refunds, and reimbursements.¹⁹⁹ Justice Caguioa opined that “[g]iven the historicity of the

¹⁹⁴ *Estores*, 670 SCRA 95.

¹⁹⁵ *Crismina Garments*, 363 Phil. 701.

¹⁹⁶ *Lara's Gifts & Decors*, G.R. No. 225433. (Caguioa, J., concurring and dissenting).

¹⁹⁷ *Id.* citing *Pilipinas Bank v. CA*, G.R. No. 97873, 225 SCRA 268, Aug. 12, 1993; *Crismina Garments, Inc. v. CA*, G.R. No. 128721, 304 SCRA 356, Mar. 9, 1999; *Federal Builders, Inc. v. Foundation Specialists, Inc.*, G.R. No. 194507, 734 SCRA 379, Sept. 8, 2014; *Kabisig Real Wealth Dev., Inc. v. Young Builders Corp.*, G.R. No. 212375, 816 SCRA 30, Jan. 25, 2017; *Cabanting v. BPI Family Sav. Bank, Inc.*, G.R. No. 201927, 784 SCRA 251, Feb. 17, 2016 ; *Filinvest Alabang, Inc. v. Century Iron Works, Inc.*, G.R. No. 213229, 777 SCRA 519, Dec. 9, 2015; *NFF Indus. Corp. v. G & L Associated Brokerage*, G.R. No. 178169, 745 SCRA 73, Jan. 12, 2015; *Beltran v. AMA Comput. Coll-Binan*, G.R. No. 223795, Apr. 3, 2019; *Bigg's, Inc. v. Boncacas*, G.R. No. 200487, Mar. 6, 2019; and *Pardillo v. Bandojo*, G.R. No. 224854, Mar. 27, 2019.

¹⁹⁸ *Id.* citing *Nat'l Power Corp. v. Angas*, G.R. No. 60225, 208 SCRA 542, May 8, 1992 and *Evergreen Mfg. Corp. v. Republic*, G.R. No. 218628, 839 SCRA 200, Sept. 6, 2017.

¹⁹⁹ *Id.* citing *Pilipinas Bank v. CA*, G.R. No. 97873, 225 SCRA 268, Aug. 12, 1993; *Remington Indus. Sales Corp. v. Maricalum Mining Corp.*, G.R. No. 193945, 759 SCRA 649, June 22, 2015 ; *Estores*, 670 SCRA 95; *Lequin v. Vizconde*, G.R. No. 177710, 603 SCRA 407, Oct. 12, 2009; *ECE Realty & Dev., Inc. v. Hernandez*, G.R. No. 212689, 732 SCRA 458, Aug. 6, 2014; *Intl. Container Terminal Serv., Inc. v. FGU Ins. Corp.*, G.R. No. 161539, 586 SCRA 485, Apr. 24, 2009; *JL Investment & Dev., Inc. v. Tendon Phil., Inc.*, G.R. No. 148596, 512 SCRA 84, Jan. 22, 2007; and *Dart Phil., Inc. v. Spouses Calogcog*, G.R. No. 149241, 596 SCRA 614, Aug. 24, 2009 .

Usury Law, [...] the scope and application of the phrase “forbearance of money, goods, or credits” must be given a limited construction, in light of the object and purpose of the Usury Law.²⁰⁰

In striking down the adoption of the definition and scope of the term as defined in *Estores*, Justice Caguioa reiterated the ruling in *Reformina*,²⁰¹:

[A]ny other kind of monetary judgment which has nothing to do with, nor involving loans or forbearance of any money, goods or credits does not fall within the coverage of the said law for it is not within the ambit of the authority granted to the Central Bank. The Monetary Board may not tread on forbidden grounds. It cannot rewrite other laws. That function is vested solely with the legislative authority. It is axiomatic in legal hermeneutics that statutes should be construed as a whole and not as a series of disconnected articles and phrases. In the absence of a clear contrary intention, words and phrases in statutes should not be interpreted in isolation from one another. A word or phrase in a statute is always used in association with other words or phrases and its meaning may thus be modified or restricted by the latter.²⁰²

Applying the aforementioned rationale, Justice Caguioa submitted that “the phrase ‘forbearance of money, goods, or credits’ must be construed in the narrow context of the Usury Law and in relation to the other provisions found therein.”²⁰³ He further opined:

Hence, I find that “forbearance” is no different from a loan and that the use of the conjunctive “or” precisely specifies this - meaning the word “loan” is not confined to a forbearance of only money, but also of goods or services. But even if “forbearance” is “separate from a loan” as the *ponencia* suggests, I believe that “forbearance” is or must be understood as akin to a loan and must involve (1) an agreement or contractual obligation (2) to refrain from enforcing payment or to extend the period for the payment of (3) an obligation that has become due and demandable, (4) in return for some compensation, *i.e.*, interest.

²⁰⁰ *Id.* (Underscoring omitted.)

²⁰¹ *Id.*

²⁰² *Reformina*, 139 SCRA 260, 265-66.

²⁰³ *Lara's Gifts & Decors*, G.R. No. 225433 (Caguioa, J., *concurring and dissenting*). (Emphasis and underscoring omitted.)

Based on the foregoing disquisition, I therefore submit that not all obligations constituting the payment of a sum of money may be considered forbearances within the context of the Usury Law and within the authority of the BSP. The mere fact that there is delay or refusal to pay the sums due under a contract of sale, service, employment, lease, or insurance will not constitute a forbearance of money, goods, or credit. In such cases, the obligee or creditor does not actually agree or even acquiesce and is not contractually obliged to refrain from enforcing payment in exchange for interest, but merely fails to exact payment. Hence, the BSP-prescribed rate cannot apply. Instead, the 6% per annum interest rate under the Civil Code should apply.

In like manner, the fact that the payment of interest in case of delay is stipulated in a contract will not automatically transform an obligation into a forbearance. Thus, the presence of a provision on the payment of interest in case of delay in the payment of the purchase price in a contract to sell or of sale, or in the payment of rents under a lease contract, does not transform the sale or lease into a forbearance. In the same vein, a construction contract cannot be deemed a forbearance even if there is a stipulation on the payment of interest in case the party who engaged the services of the contractor does not pay the progress billings on time. The payment of interest in case of delay is in the nature of a penalty clause, which parties may validly stipulate on in agreements involving both loans/forbearances and non-loans/non-forbearances.

That said, should the parties in the aforementioned situations subsequently agree to extend the period for the performance of a due and demandable obligation in exchange for compensation, *i.e.*, interest, a forbearance would then arise. In this situation, the evils sought to be prevented by usury statutes, *i.e.*, when obligors, desperate to obtain an extension for the performance of a due and demandable obligation, are placed in the power of obligees who may take advantage of this desperation in order to exact more interest than the law allows, would be present.²⁰⁴

Aside from tackling the concept of the term “forbearance of money, goods, or credits” in the context of contracts of sale, service, and employment, just compensation, and returns, refunds, and reimbursements, Justice Caguioa revisited paragraph 3 of part II of both the *Eastern Shipping Lines* and *Nacar* guidelines. Based on these guidelines, a final and executory monetary judgment bears the legal interest rate prescribed by the BSP until

²⁰⁴ *Id.* (Emphasis and underscoring omitted.)

full satisfaction because the interim period is equivalent to a forbearance of credit. According to Justice Caguioa, such interim period does not constitute a forbearance of credit:

[O]nce a judgment becomes final and executory, all previously unliquidated and unknown claims/damages are established with reasonable certainty – thus, already liquidated – and become due and demandable. Hence, said amounts should begin to earn interest not because the interim period is a forbearance of credit but because the non-payment of a final and executory decision constitutes delay under Article 2209 of the Civil Code.²⁰⁵

3. *Scope of Article 2212 of the Civil Code*

One of the guidelines in the main opinion sets out the following:

2. In the absence of stipulated interest, in a loan or forbearance of money, goods, credits or judgments, the rate of interest on the principal amount shall be the prevailing legal interest prescribed by the *Bangko Sentral ng Pilipinas*, which shall be computed from default, *i.e.*, from extrajudicial or judicial demand in accordance with Article 1169 of the Civil Code, UNTIL FULL PAYMENT, without compounding any interest unless compounded interest is expressly stipulated by law or regulation. Interest due on the principal amount accruing as of judicial demand shall SEPARATELY earn legal interest at the prevailing rate prescribed by the *Bangko Sentral ng Pilipinas*, from the time of judicial demand UNTIL FULL PAYMENT.²⁰⁶

Justice Caguioa pointed out that there was no citation on the imposition of interest on interest when there is no stipulated interest in a “loan or forbearance of money, goods, or credits” or judgments.²⁰⁷

The concept of interest on interest is found under Article 2212 of the Civil Code, which states that “interest due shall earn legal interest from the time it is judicially demanded, although the obligation may be silent upon this point.” In their respective concurring and dissenting opinions, Justice Caguioa²⁰⁸ and Justice Mario Victor F. Leonen²⁰⁹ opined that Article 2212 of

²⁰⁵ *Id.* (Emphasis omitted.)

²⁰⁶ *Lara’s Gifts & Decors*, G.R. No. 225433. (Emphasis and citations omitted.)

²⁰⁷ *Id.* (Caguioa, J., concurring and dissenting).

²⁰⁸ *Id.*

²⁰⁹ *Id.*

the Civil Code only applies to accrued stipulated interest. Verily, “should parties stipulate on the payment of interest, Article 2212 should apply by operation of law to any amount of interest that has accrued at the time of judicial demand, even when the obligation does not constitute a loan or forbearance.”²¹⁰

Significantly, in *Hun Hyung Park v. Eung Won Choi*,²¹¹ the Court explained:

“[I]nterest due” in Article 2212 refers only to *accrued* interest. A look at the counterpart provision of Article 2212 of the new Civil Code, Article 1109 of the old Civil Code, supports this. It provides:

Art. 1109. Accrued interest shall draw interest at the legal rate from the time the suit is filed for its recovery, even if the obligation should have been silent on this point.

In commercial transactions the provisions of the Code of Commerce shall govern.

Pawnshops and savings banks shall be governed by their special regulations.

In interpreting the above provision of the old Civil Code, the Court in *Zobel v. City of Manila*, ruled that Article 1109 applies only to conventional obligations containing a stipulation on interest. Similarly, Article 2212 of the new Civil Code contemplates, and therefore applies, only when there exists stipulated or conventional interest.²¹²

Furthermore, Justice Leonen emphasized that “Article 2212 of the Civil Code should also be subject to the basic doctrine on unconscionable interest rates, where interest on interest should not apply when the stipulated interest rate already borders on being unconscionable.”²¹³

²¹⁰ *Id.*

²¹¹ *Id.*

²¹² *Hun Hyung Park v. Eung Won Choi*, G.R. No. 220826, Mar. 27, 2019.

²¹³ *Lara's Gifts & Decors*, G.R. No. 225433 (Leonen, J., *concurring and dissenting*).

CONCLUSION

Unquestionably, due to the perplexing laws and jurisprudence concerning the applicable interest rate and the periods covered by the same, as well as the contradictory jurisprudence relating to the definition and scope of the term “forbearance of money, goods, or credits,” the issue of how to properly compute interest has long plagued the Court.

The concept of interest can be dated back to the 19th century when the Spanish Civil Code was enacted. From then on, the Philippine Legislature passed the Usury Law, which was subsequently amended by PD No. 116, and the Civil Code. Thereafter, acting on the authority conferred to it by the Usury Law, as amended by PD No. 116, the then CB, through CBC No. 416, Series of 1974, raised the interest rate under Section 1 of the Usury Law from 6% per annum to 12% per annum for a “loan or forbearance of money, goods or credits” and the rate allowed in judgments. Verily, the 12% per annum legal interest rate only applies in the absence of an express contract as to such rate of interest. Because of the legal interest rate increase from 6% per annum to 12% per annum, there arose a necessity to determine when the 12% per annum legal interest rate is to be applied.

After two decades since the promulgation of CBC No. 416, Series of 1974, the Court, in the landmark case of *Eastern Shipping Lines*, issued the first set of guidelines on the imposition of interest, attempting to reconcile the Usury Law, as amended by PD No. 116, and the Civil Code as well as jurisprudence relating to the computation of interest.

Nearly two decades after *Eastern Shipping Lines*, BSP-MB Circular No. 799, Series of 2013 was passed. Under BSP-MB Circular No. 799, Series of 2013, the rate of legal interest applicable to a “loan or forbearance of money, goods, or credits” and judgments was reduced from 12% per annum to 6% per annum. The Circular took effect on July 1, 2013 and had prospective application. Given the issuance of BSP-MB Circular No. 799, Series of 2013, the Court modified the *Eastern Shipping Lines* guidelines in *Nacar*.

Nevertheless, even with the issuance of these guidelines, the confusion as to the proper way of computing interest never disappeared. Importantly, under both the *Eastern Shipping Lines* and *Nacar* guidelines, the Court erroneously failed to clarify that for a “loan or forbearance of money, goods, or credits,” the prevailing legal interest can only be imposed when the contracting parties did not agree on a preferred interest. Hence, the prevailing legal interest only finds application in scenarios when there is no

stipulated interest. Furthermore, the Court continued to promulgate conflicting decisions regarding the definition and scope of the term “forbearance of money, goods, or credits.” Strikingly, such term was never defined by the Usury Law, as amended by PD No. 116, nor the Civil Code.

Given the failure of the Court to put an end to the controversies brewing around the proper imposition of interest, it further modified both the *Eastern Shipping Lines* and *Nacar* guidelines by promulgating the *Lara’s Gifts & Decors* guidelines. There, the Court clarified that for a “loan or forbearance of money, goods, or credits,” when there is a stipulated interest, such interest rate prevails over the prevailing legal interest. It likewise distinguished the application of Article 2209 of the Civil Code from Articles 2210 and 2211 of the Civil Code. Moreover, it reconciled the conflicting jurisprudence regarding the definition of the term “forbearance of money, goods, or credits” by adopting the definition under the case of *Estores*, i.e. arrangements other than loan agreements where a person acquiesces to the temporary use of his money, goods, or credits pending happening of certain events or fulfillment of certain conditions.

Notwithstanding the valiant effort of the Court to correct both the *Eastern Shipping Lines* and *Nacar* guidelines, there remains to be unresolved issues which were raised by some of its members. Notably, as opposed to *Eastern Shipping Lines* and *Nacar* where none of the members of the Court dissented, in *Lara’s Gifts & Decors*, Justice Caguioa and Justice Leonen respectively drafted a Separate Concurring and Dissenting Opinion. Justice Francis H. Jardeleza also joined Justice Caguioa’s separate concurring and dissenting opinion.

Significantly, the following contentions, among others, were brought to the fore: (1) Article 2209 of the Civil Code covers all obligations consisting in the payment of a sum of money and does not distinguish as to the particular source of the obligation; (2) the adoption of the definition and scope of the term “forbearance of money, goods, or credits” in *Estores* is incorrect because the phrase must be construed in the narrow context of the Usury Law and in relation to the other provisions found therein; and (3) Article 2212 of the Civil Code only applies to accrued monetary interest and is subject to the basic doctrine on unconscionable interest rates.

With the promulgation of the *Lara’s Gifts & Decors* guidelines, the Court was able to correct the errors caused by both the *Eastern Shipping Lines* and *Nacar* guidelines. However, the arguments raised by some of its members deserve substantial consideration and warrant another review of

the *Lara's Gifts & Decors* guidelines. Clearly, if the Court wishes to ultimately put to rest all doubts and confusion brought about by the computation of interest, then it should leave no stone unturned.

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