Republic of the Philippines
Supreme Court
Manila

SECOND DIVISION

DANILO DECENA and CRISTINA CASTILLO (formerly DECENA), *Petitioners,*	**G.R. No. 239418**
	Present:
	PERLAS-BERNABE, *J.*, Chairperson,
- versus -	HERNANDO,
	INTING,
	DELOS SANTOS, and
	BALTAZAR-PADILLA,* *JJ.*
ASSET POOL A (SPV-AMC), INC., *Respondent.*	Promulgated:
	OCT 12 2020

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D E C I S I O N

DELOS SANTOS, *J.*:

The Case

Before the Court is a Petition for Review on *Certiorari*[1] under Rule 45 of the Rules of Court assailing the Decision[2] dated August 25, 2017 and the Resolution[3] dated May 15, 2018 of the Court of Appeals (CA) in CA-G.R. CV No. 107364 which ordered petitioners Danilo Decena (Danilo) and Cristina Castillo (Cristina; petitioners) to pay respondent Asset Pool A (SPV-AMC), Inc. (respondent) the amount of ₱10,000,000.00 plus interest of 12% per annum from September 19, 2006 to June 30, 2013 and 6% interest per annum from July 1, 2013 until the obligation is fully paid.

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* On leave.

1 *Rollo*, pp. 9-23.

2 Penned by Associate Justice Mariflor P. Punzalan Castillo, with Associate Justices Rodil V. Zalameda (now a Member of the Court) and Ma. Luisa C. Quijano-Padilla, concurring; id. at 24-38.

3 Id. at 56-57.

The Facts

On January 14, 2008, respondent filed a Complaint for Sum of Money and Damages[4] against petitioners before the Regional Trial Court (RTC) of Makati City.[5] Respondent alleged that petitioners applied for and were granted loans in the total amount of ₱20,000,000.00 by Prudential Bank. Prudential Bank then merged with the Bank of the Philippine Islands (BPI) and BPI became the surviving corporation. Respondent alleged that petitioners defaulted in their contractual obligations and left an unpaid obligation of ₱10,000,000.00 evidenced by Promissory Note dated January 21, 1998 and ₱2,500,000.00 evidenced by Promissory Note dated October 6, 1997.[6]

On May 12, 2006, BPI assigned petitioners' indebtedness to respondent through a deed of assignment and BPI's rights and interest over the said receivables were then ceded to respondent. On September 19, 2006, respondent sent a notice to petitioners directing them to pay their unpaid obligation. On May 17, 2007, respondent sent petitioners another demand letter to settle their outstanding obligation. Having failed to heed respondent's repeated demands, respondent filed a complaint with the RTC against petitioners.[7]

In petitioners' Answer, petitioners admitted that they loaned from Prudential Bank. However, as far as they knew, that loan obligation had already been substantially paid. Petitioners claimed that respondent had the burden of proving its claim and that no comprehensive records were ever presented to them. Petitioners also averred that the complaint should have been dismissed outright on the ground of laches since the complaint was filed only after almost 10 years from the maturity dates of the two loans.[8]

During trial, Isabelita Martinez Ciabal (Ciabal) testified that she was a Director and Remedial Account Officer for respondent since 2009. Ciabal testified that she was in charge of collection of bad and non-performing loans and that petitioners' loan account was one of the numerous accounts that was conveyed to respondent by BPI through a deed of assignment. Ciabal testified that respondent tried to contact petitioners and even sent them demand letters. Unfortunately, respondent did not receive any reply prompting it to refer the matter to their legal counsel for legal action. On cross-examination, Ciabal testified that she was not an employee of BPI and Prudential Bank. Ciabal explained that the principal obligation of petitioners was ₱12,500,000.00 and that based on the promissory notes, the total

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4 Id. at 58-63.
5 Docketed as Civil Case No. 08-034.
6 *Rollo*, p. 25.
7 Id.
8 Id. at 26.

chargeable interest was 15%. Ciabal claimed that petitioners were duly informed and that respondent's counsel sent petitioners a demand letter dated May 17, 2007 which was received by Ramon Polangco.[9]

Danilo testified that Cristina, his co-petitioner in the present case, was his former wife and that he merely learned of the existence of the loan after he suddenly received a notice. Danilo claimed that Cristina called him and discussed the said transaction with the bank which he testified he could not fully remember the exact details. Danilo claimed that he recalled that sometime in 1996 and 1998, they both obtained loans in the amount of ₱19,600,000.00, ₱3,000,000.00 and ₱6,800,000.00 from Prudential Bank. Danilo claimed that they were able to pay substantial amounts and the loans were settled in 2004 when Prudential Bank foreclosed their properties that were offered as collateral.[10] Danilo claimed that he was surprised when respondent filed the instant collection case since all their debts with Prudential Bank had already been paid in full. Danilo also testified that he could not remember the two promissory notes presented by respondent as basis for their unpaid indebtedness.

The Ruling of the RTC

In a Decision[11] dated December 11, 2015, the RTC of Makati City, Branch 150, held that petitioners were liable for the loan obligation to respondents. The RTC held that respondents proved their claim by preponderance of evidence which clearly outweighs the bare assertions and denial of petitioners. The dispositive portion of the RTC Decision provides:

> WHEREFORE, premises considered, plaintiff having proved its claim by preponderance of evidence against defendants Danilo Decena and Crisitina Decena, judgment is hereby rendered ordering them to pay plaintiff Asset Pool A (SPV-AMC) jointly and severally the following:
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> 1. the principal amount of Php12,500,000.00 plus 12% interest and 6% penalty charges per annum from September 19, 2006 until finality of the Decision;
> 2. 6% interest per annum on the principal from finality of the Decision until the obligation is fully paid;
> 3. Php25,000.00 as Attorney's Fees; and
> 4. costs of suit.
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> The counterclaim of defendants is dismissed for failure to prove its existence.
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> SO ORDERED.[12]

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[9] Id. at 27.
[10] Id.
[11] Penned by Judge Elmo M. Alameda; id. at 70-76.
[12] Id. at 76.

Petitioners then filed an appeal before the CA.

The Ruling of the CA

In a Decision[13] dated August 25, 2017, the CA partially affirmed the Decision of the RTC. The CA ruled that respondent established, through preponderance of evidence, petitioners' liability for the amount due. The CA held that petitioners never impugned the authenticity of the signatures on the promissory notes. The CA also found that petitioners also admitted having obtained loans from then Prudential Bank. Jurisprudence clearly provides that the person who pleads payment has the burden of proving payment. The CA held that the burden clearly rests on the petitioners to prove payment rather than on the respondent to prove non-payment. The CA also held that when a creditor is in possession of a document of credit, proof of non-payment is unnecessary for it is already presumed. The CA found that the respondent's possession of the promissory notes strongly buttresses its claim that petitioners' obligation has not yet been extinguished.

However, the CA reduced the principal amount to ₱10,000,000.00 since the prayer contained in respondent's complaint only asked for the specific amount of ₱10,000,000.00. The CA ruled that the rule is settled that courts cannot award more than what was specifically prayed for in the complaint.

The dispositive portion of the CA Decision provides:

> WHEREFORE, premises considered, the instant appeal is PARTIALLY GRANTED. The December 11, 2015 Decision of the Regional Trial Court of Makati City, Branch 150, is MODIFIED in that defendants-appellants are ORDERED to pay the plaintiff-appellee, jointly and severally, the principal amount of ₱10,000,000.00 plus interest of 12% per annum from September 19, 2006 to June 20, 2013, and 6% interest from July 1, 2013 until the obligation is fully paid. In all other respects, the assailed Decision is AFFIRMED.
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> SO ORDERED.[14]

In a Resolution[15] dated May 15, 2018, the CA denied petitioners' Motion for Reconsideration.

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[13] Id. at 24-38.
[14] Id. at 37-38.
[15] Id. at 56-57.

The Issue

The issue for the Court's resolution is whether petitioners are liable for the amount due.

The Ruling of the Court

The records of the case show that two promissory notes signed by petitioners were duly presented in the RTC: (1) ₱10,000,000.00 evidenced by Promissory Note dated January 21, 1998; and (2) ₱2,500,000.00 evidenced by Promissory Note dated October 6, 1997. Petitioners then contend that the two aforementioned promissory notes had already been settled or paid by them. In *Royal Cargo Corporation v. DFS Sports Unlimited, Inc.*,[16] the Court held that in civil cases, the one who pleads payment has the burden of proving payment. The burden of proving payment, thus, rests on the defendant once proof of indebtedness is established. In fact, in a long line of cases, the Court has consistently held that the party alleging payment must necessarily prove his or her claim of payment.[17] When the creditor is in possession of the document of credit, proof of non-payment is not needed for it is presumed.[18] In *Bank of the Philippine Islands v. Spouses Royeca*,[19] the Court held that a promissory note in the hands of the creditor is proof of indebtedness and not of payment. Verily, the creditor's possession of an evidence of indebtedness is proof that the debt has not been discharged by payment, to wit:

> The creditor's possession of the evidence of debt is proof that the debt has not been discharged by payment. A promissory note in the hands of the creditor is a proof of indebtedness rather than proof of payment. In an action for replevin by a mortgagee, it is *prima facie* evidence that the promissory note has not been paid. Likewise, [a non-canceled] mortgage in the possession of the mortgagee gives rise to the presumption that the mortgage debt is unpaid.[20]

Upon perusing the records, the Court finds that there is no merit in petitioners' claim that their loan obligation had already been paid. Neither is there merit in petitioners' argument that the said loan obligation to respondent was deemed satisfied when the properties they mortgaged to secure the loans were supposedly foreclosed. Petitioners clearly failed to

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16 594 Phil. 73 (2008).

17 *Bank of the Philippine Islands v. Spouses Royeca*, 581 Phil. 188, 194 (2008); *Benguet Corporation v. Department of Environment and Natural Resources-Mines Adjudication Board*, 568 Phil. 756, 772 (2008); *Citibank, N.A. v. Sabeniano*, 535 Phil. 384, 419 (2006); *Keppel Bank Philippines, Inc. v. Adao*, 510 Phil. 158, 166-167 (2005); and *Far East Bank and Trust Company v. Querimit*, 424 Phil. 721, 730-731 (2002).

18 *Tai Tong Chuache & Co. v. Insurance Commission*, 242 Phil. 104, 112 (1988).

19 Supra note 17.

20 Id. at 197.

present documentary evidence of payment and evidence that the mortgaged properties were actually used to secure the subject promissory notes. As pointed out by the CA, Danilo was even unaware whether the properties petitioners previously mortgaged were used to secure their previous loans or the loans covered by the promissory notes, to wit:

> Q: Do you have any proof to show to this court any payment by you on the Php 10 Million which you have obtained from Prudential Bank?
> A: As of now, I cannot recall I have to consult again with...
>
> Q: *Nandito ka na sa husgado, ito na ang panahon hindi na pwedeng bukas ngayon na*[.]
> A: I cannot show proof right now at [this] point in time.
>
> Q: So all that you are saying, it is just your belief that this loan covered by the promissory note had already been paid when the bank foreclosed the collaterals which you offered?
> A: That is correct, Your Honor as far as I know.
>
> Q: Is it correct that the properties offered amounting to Php26 Million were offered not for this loan but for the previous loans which you obtained from the bank?
> A: I cannot answer that. Sorry Your Honor.[21]

In fact, as correctly ruled by the CA, it was Danilo who admitted the genuineness of his signatures in the Promissory Notes dated October 6, 1997 and January 21, 1998. The records provide:

> Q: Look at this document Mr. witness subject matter of this case Mr. Decena Exhibit "A"?
> A: Yes, Your Honor.
>
> Q: Will you see if you affix your signature?
> A: Yes, Your Honor, that is my signature.
>
> Q: That is your signature. And will you examine your signature and tell the court if you are familiar with this signature?
> A: Yes, Your Honor.
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> Q: x x x [S]ince you have admitted signing this document is it the impression of the court that you are also admitting the loan covered by the promissory note which you obtained from Prudential Bank?
> A: Yes, Your Honor.[22]

The Court agrees with the CA that the existence of the promissory notes, coupled with their own admission, had already established petitioners'

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[21] *Rollo*, pp. 31-32.
[22] Id. at 30-31.

indebtedness to respondent. From the foregoing, the Court finds that petitioners remain liable for the two promissory notes because they had failed to discharge the burden of proving their payment. Indeed, as held by the Court, when the existence of a debt is fully established by the evidence contained in the record, the burden of proving that it has been extinguished by payment devolves upon the debtor who offers such defense to the claim of the creditor.[23] The debtor has the burden of showing with legal certainty that the obligation has been discharged by payment.[24] Having failed to discharge such burden, petitioners remain liable for their indebtedness to respondent.

Petitioners are liable for ₱12,500,000.00 as the principal amount of the claim.

The CA ruled that, while the complaint alleged that petitioners had an unpaid balance of ₱12,500,000.00 and that the same had already ballooned due to interest and penalty charges, the amount prayed for in respondent's complaint was the amount of ₱10,000,000.00. Hence, petitioners could only be liable for the amount of ₱10,000,000.00.

We disagree with the finding of the CA.

The principle that the "courts cannot grant a relief not prayed for in the pleadings or in excess of what is being sought by the party"[25] is generally a principle of law founded on due process. Due process, thus, requires that judgments must conform to and be supported by the pleadings and evidence presented in court.[26] Notwithstanding, in *Development Bank of the Philippines v. Teston*,[27] the Court explained that the foregoing due process requirement is satisfied when the opposing party is given notice and opportunity to be heard with respect to the proposed relief, to wit:

> Due process considerations justify this requirement. It is improper to enter an order which exceeds the scope of relief sought by the pleadings, **absent notice which affords the opposing party an opportunity to be heard with respect to the proposed relief**. The fundamental purpose of the requirement that allegations of a complaint

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[23] *Citibank, N.A. v. Sabeniano*, supra note 17; and *Coronel v. Capati*, 498 Phil. 248, 255 (2005).

[24] *Royal Cargo Corporation v. DFS Sports Unlimited, Inc.*, supra note 16, at 84; *Bank of the Philippine Islands v. Spouses Royeca*, supra note 17, at 195; *Benguet Corporation v. Department of Environment and Natural Resources-Mines Adjudication Board*, supra note 17; *Citibank, N.A. v. Sabeniano*, supra note 17; *Coronel v. Capati*, supra note 23, at 256; and *Far East Bank and Trust Company v. Querimit*, supra note 17, at 731.

[25] *Diona v. Balangue*, 701 Phil. 19 (2013).

[26] Id.

[27] 569 Phil. 137 (2008).

> must provide the measure of recovery is to prevent surprise to the defendant.[28] (Emphasis supplied)

In the present case, respondent specifically averred in its complaint that its cause of action was based on the two promissory notes issued by petitioners for a total amount of ₱12,500,000.00. Both the due execution and the non-payment thereof were sufficiently proven during trial with petitioners' active participation. Petitioners were, thus, not unduly deprived of their opportunity to be heard with respect to the total amount of the promissory notes of ₱12,500,000.00. Hence, it cannot be said that petitioners will be unduly surprised since petitioners actively participated and were given due notice during the whole proceedings. Accordingly, the CA erred when it reduced the principal amount to ₱10,000,000.00 only.

As regards the computation of interest, in *Nacar v. Gallery Frames*,[29] the Court pronounced the rules in determining the amount of interest during breaches of obligations of a payment of a sum of money including a loan or forbearance of money, to wit:

> 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*.**
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> x x x x
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> 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.**
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> **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**

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[28] Id. at 144.
[29] 716 Phil. 267 (2013).

> **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.[30] (Citation omitted; emphases supplied)

There are two types of interest, namely: (1) monetary interest, which is the compensation fixed by the parties for the use or forbearance of money; and (2) compensatory interest, which is that imposed by law or by the courts as penalty or indemnity for damages. Accordingly, the right to recover interest rates arises either by virtue of a contract or monetary interest, or as damages for delay or failure to pay the principal loan which is demanded or compensatory interest.[31]

In the present case, it was established that petitioners' principal loan obligation to respondent was ₱12,500,000.00. The original monetary interest was then struck down by the RTC as unconscionable. In *Isla v. Estorga*,[32] the Court ruled that when the parties' stipulated interest rate is struck down for being excessive and unconscionable, the unconscionable interest rate is nullified and deemed not written in the contract. In *Isla*, the Court held that in cases where the interest rate is struck down as unconscionable the legal rate of interest prevailing at the time the agreement was entered into will be applied by the Court, to wit:

> [I]t is well to clarify that only the unconscionable interest rate is nullified and deemed not written in the contract; whereas the parties' agreement on the payment of interest on the principal loan obligation subsists. It is as if the parties failed to specify the interest rate to be imposed on the principal amount, in which case the legal rate of interest prevailing at the time the agreement was entered into is applied by the Court. This is because, according to jurisprudence, the legal rate of interest is the presumptive reasonable compensation for borrowed money.[33]

Applying the foregoing Decisions of the Court in the present case, the principal amount of ₱12,500,000.00, thus, should earn the straight monetary interest of 12% per annum reckoned from the date of extrajudicial demand

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30 Id. at 280-283.

31 See *Isla v. Estorga*, G.R. No. 233974, July 2, 2018, citing *Spouses Pen v. Spouses Santos*, 776 Phil. 50, 62 (2016).

32 Id.

33 Id.

or, in the present case, on September 19, 2006 until finality of the ruling. Further, in accordance with Article 2212[34] of the Civil Code, the stipulated monetary interest should also earn compensatory interest at the rate of 12% per annum from the time of judicial demand or, in the present case, on January 14, 2008 until June 30, 2013, and 6% per annum from July 1, 2013 until finality of the ruling.[35] Finally, all monetary awards will earn interest at the rate of 6% per annum from finality of the ruling until full payment.

WHEREFORE, the petition is **DENIED** and the Court **AFFIRMS with MODIFICATION** the Decision dated August 25, 2017 and the Resolution dated May 15, 2018 of the Court of Appeals in CA-G.R. CV No. 107364. Petitioners Danilo Decena and Cristina Castillo (formerly Decena) are jointly and severally liable to pay respondent Asset Pool A (SPV-AMC), Inc. the following amounts:

(1) The principal amount of ₱12,500,000.00 plus monetary interest of 12% per annum from extrajudicial demand, or on September 19, 2006 until finality of the ruling;

(2) Compensatory interest on the monetary interest at the rate of 12% per annum from the time of judicial demand, or on January 14, 2008 until June 30, 2013, and 6% per annum from July 1, 2013 until finality of the ruling;

(3) ₱25,000.00 as attorney's fees;

(4) The costs of the suit; and

(5) Legal interest at the rate of 6% per annum imposed on the sums due in (1), (2), (3), and (4) from finality of the ruling until full payment.

SO ORDERED.

EDGARDO L. DELOS SANTOS
Associate Justice

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[34] Art. 2212 of the CIVIL CODE provides:
Art. 2212. Interest due shall earn legal interest from the time it is judicially demanded, although the obligation may be silent upon this point.

[35] Bangko Sentral ng Pilipinas Monetary Board Resolution No. 796 dated May 16, 2013, effective July 1, 2013.

WE CONCUR:

ESTELA M. PERLAS-BERNABE
Senior Associate Justice
Chairperson

RAMON PAUL L. HERNANDO
Associate Justice

HENRI JEAN PAUL B. INTING
Associate Justice

(On Leave)
PRISCILLA J. BALTAZAR-PADILLA
Associate Justice

ATTESTATION

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

ESTELA M. PERLAS-BERNABE
Senior Associate Justice
Chairperson, Second Division

CERTIFICATION

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

DIOSDADO M. PERALTA
Chief Justice