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Republic of the Philippines
Supreme Court
Manila

THIRD DIVISION

LYLITH B. FAUSTO, JONATHAN FAUSTO, RICO ALVIA, ARSENIA TOCLOY, LOURDES ADOLFO and ANECITA MANCITA,	**G.R. No. 213939**
Petitioners,	Present:
	VELASCO, JR., *J.*, *Chairperson*,
	PERALTA,
	PEREZ,
- versus -	REYES, and
	JARDELEZA, *JJ.*
MULTI AGRI-FOREST AND COMMUNITY DEVELOPMENT COOPERATIVE (formerly MAF CAMARINES SUR EMPLOYEES COOPERATIVE, INC.),	
Respondent.	Promulgated:
	October 12, 2016

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RESOLUTION

REYES, *J.*:

This is a petition for review on *certiorari*[1] under Rule 45 of the Rules of Court, assailing the Decision[2] dated March 17, 2014 and the Resolution[3] dated August 4, 2014 of the Court of Appeals (CA) in CA-G.R. SP No. 123602.

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1 *Rollo*, pp. 45-60.

2 Penned by Associate Justice Agnes Reyes-Carpio, with Associate Justices Noel G. Tijam and Priscilla J. Baltazar-Padilla concurring; id. at 11-29.

3 Id. at 38-39.

Factual Antecedents

Multi Agri-Forest and Community Development Cooperative[4] (respondent) is a registered credit cooperative wherein Lylith Fausto (Lylith), Jonathan Fausto (Jonathan), Rico Alvia (Rico), Arsenia Tocloy (Arsenia), Lourdes Adolfo (Lourdes) and Anecita Mancita (Anecita)[5] (collectively, the petitioners) are active members.[6]

On September 10, 1998, Lylith obtained a loan from the respondent in the amount of ₱80,000.00, with due date on January 8, 1999.[7] Subsequently, she secured another loan in the amount of ₱50,000.00 which will fall due on March 14, 1999.[8] Shortly thereafter, she procured a third loan from the respondent also in the amount of ₱50,000.00.[9] All of the mentioned transactions were evidenced by separate promissory notes, with Anecita and Lourdes signing as co-makers in the first and second loans, and Rico and Glicerio Barce (Glicerio) in the third loan.

Similarly, on October 27, 1998, Jonathan obtained a loan from the respondent in the amount of ₱60,000.00 to fall due on February 24, 1999, with Lylith and Glicerio as co-makers.[10] Thereafter, on December 10, 1998, he obtained a second loan in the amount of ₱100,000.00, with Lylith and Arsenia as his co-makers.[11] All five loans obtained by Lylith and Jonathan were imposed with an interest of 2.3% per month, with surcharge of 2% in case of default in payment of any installment due.

Lylith and Jonathan, however, failed to pay their loans despite repeated demands. Thus, on December 12, 2000, the respondent, through its Acting Manager Ma. Lucila G. Nacario (Nacario), filed five separate complaints[12] for Collection of Sum of Money before the Municipal Trial Court in Cities (MTCC) of Naga City against the petitioners.

After the respondent rested its case, Rico, Glicerio, Lourdes, Arsenia and Anecita filed a motion to dismiss by way of a demurrer to evidence on the ground of lack of authority of Nacario to file the complaints and to sign the verification against forum shopping. They likewise claimed that the

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4 Formerly MAF Camarines Sur Employees Cooperative.
5 Anicia Mancita in GSIS ID, *see* CA *rollo*, p. 31.
6 *Rollo*, p. 12.
7 CA *rollo*, p. 81.
8 Id. at 104.
9 Id. at 97.
10 Id. at 71.
11 Id. at 89.
12 Id. at 69-70, 79-80, 87A-88, 95-96, 102-103.

complaints were prematurely filed since no demand letters were sent to them.[13]

The respondent filed an opposition to the demurrer to evidence alleging that the petitioners expressly waived the need for notice or demand for payment in the promissory notes. It likewise averred that there was a subsequent board resolution confirming the authority of Nacario to file the complaints on behalf of the respondent.[14]

In an Order[15] dated July 24, 2009, the MTCC of Naga City, Branch 1 denied the petitioners' demurrer to evidence for lack of merit. It pointed out that the petitioners failed to raise the supposed lack of authority of Nacario in their Answer; hence, the said defense was deemed waived. As regards the lack of notice, it noted that the promissory notes evidencing the loans stipulated a waiver on the need for notice or demand in case of default in payment of any installment due, in which case the entire balance immediately becomes due and payable.

Subsequently, in a Decision[16] dated August 1, 2011, the MTCC ruled in favor of the respondent and held the petitioners liable for the payment of specified amount of loans, which include interests, penalties and surcharges, plus 12% interest thereon. The dispositive portion of the decision reads, as follows:

> WHEREFORE, premises considered, the Court finds for the [respondent], ordering the following:
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> 1. In Civil Case No. 11318, [Jonathan, Lylith and Glicerio] are hereby ordered jointly and severally to pay to [the respondent] the amount of Php 129,881.60 plus 12% interest thereon from the filing of the case until the whole amount is fully paid.
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> 2. In Civil Case No. 11319, [Lylith, Lourdes and Anecita] are hereby ordered jointly and severally to pay to [the respondent] the amount of Php 178,564.79 plus 12% interest thereon from the filing of the case until the whole amount is fully paid.
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> 3. In Civil Case No. 11438, [Jonathan, Lylith and Arsenia] are hereby ordered jointly and severally to pay to [the respondent] the amount of Php 166,756.39 plus 12% interest thereon from the filing of the case until the whole amount is fully paid.

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13 Id. at 36-37.
14 Id. at 37.
15 Id. at 188.
16 Rendered by Presiding Judge Jose P. Nacional; id. at 43-47.

> 4. In Civil Case No. 11439, [Lylith, Rico and Glicerio] are hereby ordered jointly and severally to pay to [the respondent] the amount of Php 30,700.00 plus 12% interest thereon from the filing of the case until the whole amount is fully paid.
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> 5. In Civil Case No. 11440, [Lylith, Lourdes and Anecita] are hereby ordered jointly and severally to pay to [the respondent] the amount of Php 111,526.34 plus 12% interest thereon from the filing of the case until the whole amount is fully paid.
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> SO ORDERED.[17]

Unyielding, the petitioners appealed the foregoing decision with the Regional Trial Court (RTC) of Naga City. After the parties submitted their respective memoranda, the RTC rendered a Joint Decision[18] dated December 12, 2011, affirming with modification the decision of the MTCC. It reverted the liability of the petitioners to the original amount of the loan stated in the promissory notes and reduced the interest and surcharge to 12% *per annum*, respectively. The dispositive portion of the decision reads, thus:

> WHEREFORE, premises considered, the assailed August 1, 2011 joint decision of the [MTCC] of Naga City, Branch 1 is hereby MODIFIED as follows:
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> *1. In Civil Case No. 2011-0100 (MTCC 11318), [Jonathan, Lylith and Glicerio] are ordered jointly and severally to pay [the respondent] the Principal of loan under promissory note in the amount of P60,000.00 plus the following: a) 12% per annum on the said principal as interest and b) 12% per annum on the said principal as surcharge, both to be computed from the time of filing of this case until the whole amount is fully paid, AND c) attorney[']s fees in the amount of P6,000.00.*
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> *2. In Civil Case No. 2011-0101 (MTCC 11319), [Lylith, Lourdes and Anecita] are ordered jointly and severally to pay the* Principal of loan under promissory note in the amount of *P80,000.00 plus the following: a) 12% per annum on the said principal as interest and b) 12% per annum on the said principal as surcharge, both to be computed from the time of filing of this case until the whole amount is fully paid, AND c) attorney[']s fees in the amount of P8,000.00.*

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17 Id. at 46-47.

18 Rendered by Presiding Judge Bernhard B. Beltran; id. at 34-42.

> *3. In Civil Case No. 2011-0102 (MTCC 11438), [Jonathan & Lylith and Arsenia] are ordered jointly and severally to pay [the respondent] the* Principal of loan under promissory note in the amount of *P100,000.00 plus the following: a) 12% per annum on the said principal as interest and b) 12% per annum on the said principal as surcharge, both to be computed from the time of filing of this case until the whole amount is fully paid, AND c) attorney[']s fees in the amount of P10,000.00.*
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> *4. In Civil Case No. 2011-0103 (MTCC 11439), [Lylith, Rico and Glicerio] are hereby ordered jointly and severally to pay [the respondent] the* Principal of loan under promissory note in the amount of *P50,000.00 plus the following: a) 12% per annum on the said principal as interest and b) 12% per annum on the said principal as surcharge, both to be computed from the time of filing of this case until the whole amount is fully paid, AND c) attorney[']s fees in the amount of P5,000.00.*
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> *5. In Civil Case No. 2011-0104 (MTCC 11440), [Lylith, Lourdes and Anecita] are ordered to pay jointly and severally to pay [sic] [the respondent] the* Principal of loan under promissory note in the amount of *'P50,000.00 plus the following: a) 12% per annum on the said principal as interest and b) 12% per annum on the said principal as surcharge, both to be computed from the time of filing of this case until the whole amount is fully paid, AND c) attorney[']s fees in the amount of P5,000.00.*
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> SO ORDERED.[19]

On December 28, 2011, the petitioners filed a motion for reconsideration of the decision of the RTC. Thereafter, on February 2, 2012, the RTC issued a Joint Order,[20] specifically modifying its ruling in Civil Case No. 2011-0103, the dispositive portion of which reads, as follows:

> WHEREFORE, premises considered, with respect to a) Civil Case No. 2011-0100; b) Civil Case No. 2011-0101; c) Civil Case No. 2011-0102; d) Civil Case No. 2011-0104, the instant motion for reconsideration, dated December 27, 2011 is DENIED, and consequently, the joint decision, dated December 12, 2011 in these cases is hereby AFFIRMED.

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19 Id. at 41-42.

20 Id. at 32-33.

> Nonetheless, the decision in Civil Case No. 2011-0103 (MTCC Civil Case No. 11439) is hereby MODIFIED as to the Principal of loan from P50,000.00 to only P16,667.01. Consequently, with respect to this case, *[Lylith, Rico and Glicerio] are hereby ordered jointly and severally to pay [the respondent] the* Principal of loan under promissory note in the amount of P16,667.01, *plus the following: a) 12% per annum on the said principal as interest and b) 12% per annum on the said principal as surcharge, both to be computed from the time of filing of this case until the whole amount is fully paid, AND c) attorney[']s fees in the amount of P1,667.70.*
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> SO ORDERED.[21]

On February 22, 2012, the petitioners filed a petition for review with the CA.[22] They reiterated their claim that Nacario lacked the authority to file the complaints on behalf of the respondent in the absence of a board resolution authorizing her to do so. They further questioned the respondent's failure to resort to mediation or conciliation before filing the cases in court.[23] They also pointed out that the RTC overlooked the fact that the respondent sent demand letters only to Lylith and Jonathan, to the exclusion of their co-makers.[24] Finally, they contended that the MTCC had no jurisdiction over the complaints considering that the total amount involved was way over its jurisdictional amount of ₱100,000.00 nor to the increase in the same in the amount of ₱200,000.00, brought about by the amendment provided in Republic Act (R.A.) No. 7691.[25]

On March 17, 2014, the CA rendered a Decision,[26] affirming the decision of the RTC, the dispositive portion of which reads, as follows:

> **WHEREFORE**, in view of the foregoing, the Petition for Review is **DENIED**. The Joint Decision dated December 12, 2011, and Joint Order dated February 2, 2012, rendered by the [RTC] of Naga City, Branch 24 in Civil Cases Nos. 2011-0100, 2011-0101, 2011-0102, 2011-0103 and 2011-0104, are **AFFIRMED**.
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> **SO ORDERED**.[27] (Citations omitted)

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21 Id. at 33.
22 Id. at 3-30.
23 Id. at 19.
24 Id. at 21.
25 Id. at 26.
26 *Rollo*, pp. 11-29.
27 Id. at 28.

The CA ruled that the MTCC had jurisdiction over the case considering that pursuant to R.A. No. 7691, the jurisdictional amount pertaining to its authority had been increased to ₱200,000.00, and each of the complaints filed by the respondent are within this stated amount. It pointed out that the totality rule raised by the petitioners does not apply since the respondent filed separate complaints pertaining to different loan transactions.[28] As regards the authority of Nacario to initiate the filing of the complaints, the same had been confirmed by a board resolution recognizing her authority to do so.[29] It also ruled that the lack of mediation does not affect the cases since resort to conciliation is not a pre-requisite to the filing of a case in court.[30] Finally, it dismissed the petitioners' argument on the lack of extrajudicial demand on each of the co-makers, holding that the same was not necessary since there was a stipulation in the promissory notes on the waiver of notice or demand.[31]

The petitioners filed a Motion for Reconsideration[32] but the CA, in its Resolution[33] dated August 4, 2014, denied the same.

On September 11, 2014, the petitioners interposed the present appeal with this Court. The petitioners contend that the CA erred in upholding the jurisdiction of the MTCC to hear the cases in contravention to the totality rule. They maintain that the MTCC has no jurisdiction over the complaints since the total amount of the claims exceeds the jurisdictional amount that pertains to the MTCC. They likewise point out the lack of authority of Nacario to act on behalf of the respondent, there being no board resolution empowering her to do so at the time she filed the complaints. Further, they argue that the respondent failed to resort to mediation or conciliation before filing the cases with the MTCC. Finally, they asseverate that the CA erred in overlooking the lack of demand or notice upon the co-makers of Lylith and Jonathan.

Ruling of the Court

The petition lacks merit.

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28 Id. at 19-20.
29 Id. at 21.
30 Id. at 24-25.
31 Id. at 25-27.
32 Id. at 30-36.
33 Id. at 38-39.

The MTCC has jurisdiction over the complaints.

A reading of the petition shows that the issues raised herein had been thoroughly discussed and passed upon by the CA. On the issue of jurisdiction, the CA correctly upheld the jurisdiction of the MTCC of Naga City to hear the cases. R.A. No. 7691, which amended Section 33 of Batas Pambansa Bilang 129 (BP 129), increased the jurisdictional amount pertaining to the MTCC. Pertinently, Section 5 of R.A. No. 7691 reads:

> Sec. 5. After five (5) years from the effectivity of this Act, the jurisdictional amounts mentioned in Sec. 19(3), (4), and (8); and Sec. 33(1) of Batas Pambansa Blg. 129 as amended by this Act, shall be adjusted to Two hundred thousand pesos (P200,000.00). Five (5) years thereafter, such jurisdictional amounts shall be adjusted further to Three hundred thousand pesos (P300,000.00): Provided, however, That in the case of Metro Manila, the abovementioned jurisdictional amounts shall be adjusted after five (5) years from the effectivity of this Act to Four hundred thousand pesos (P400,000.00).

It was emphasized in *Crisostomo v. De Guzman*,[34] that the intent of R.A. No. 7691 was to expand the jurisdiction of the Metropolitan Trial Courts, Municipal Trial Courts and Municipal Circuit Trial Courts by amending the pertinent provisions of BP 129 or the Judiciary Reorganization Act of 1980. Under Section 5 of the said law, the increase in jurisdictional amount for all kinds of claims before first level courts outside of Metro Manila was to be implemented in a staggered basis over a period of 10 years. The first adjustment was to take place five years after the effectivity of the law. The second and final adjustment, on the other hand, would be made five years thereafter.[35] In particular, the first adjustment in jurisdictional amount of first level courts outside of Metro Manila from ₱100,000.00 to ₱200,000.00 took effect on March 20, 1999. Meanwhile, the second adjustment from ₱200,000.00 to ₱300,000.00 became effective on February 22, 2004 in accordance with Circular No. 65-2004 issued by the Office of the Court Administrator on May 13, 2004.[36]

Considering that the complaints were filed in 2000, the jurisdictional amount to be applied is ₱200,000.00, exclusive of interests, surcharges, damages, attorney's fees and litigation costs. This jurisdictional amount pertains to the totality of all the claims between the parties embodied in the same complaint or to each of the several claims should they be contained in separate complaints. This is the unequivocal meaning of the last proviso in

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34 551 Phil. 951 (2007).
35 Id. at 959.
36 Id.

Section 33(1) of B.P. 129, which reads:

> **Sec. 33.** *Jurisdiction of Metropolitan Trial Courts, Municipal Trial Courts and Municipal Circuit Trial Courts in civil cases.* – Metropolitan Trial Courts, Municipal Trial Courts, and Municipal Circuit Trial Courts shall exercise:
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> > (1) Exclusive original jurisdiction over civil actions and probate proceedings, testate and intestate, including the grant of provisional remedies in proper cases, where the value of the personal property, estate, or amount of the demand does not exceed One hundred thousand pesos (P100,000.00) or, in Metro Manila where such personal property, estate, or amount of the demand does not exceed Two hundred thousand pesos (P200,000.00) exclusive of interest damages of whatever kind, attorney's fees, litigation expenses, and costs, the amount of which must be specifically alleged: **Provided, That where there are several claims or causes of action between the same or different parties, embodied in the same complaint, the amount of the demand shall be the totality of the claims in all the causes of action**, irrespective of whether the causes of action arose out of the same or different transactions[.]
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> > x x x x (Emphasis ours)

Therefore, the CA correctly ruled that the totality rule does not apply in the case. As can be deduced from the above stated provision, the totality of claims rule applies only when there are several claims or causes of action between the same or different parties embodied in the ***same*** complaint, in which case the total amount of the claims shall be determinative of the proper court which has jurisdiction over the case. The instant case, however, does not call for the application of the rule since there are five complaints, each pertaining to a distinct and separate claim not exceeding ₱200,000.00. The petitioners' act of lumping altogether the amount of the claims in all of the complaints and arguing that the total amount of ₱1,216,342.91 exceeds the jurisdictional amount that pertains to the MTCC is a gross misinterpretation of the provision.

The Board of Directors (BOD) ratified the acts of Nacario.

The petitioners asseverate that Nacario has no authority to file the complaints on behalf of the respondent. They argue that it is only by the authority of a board resolution that Nacario may be able to validly pursue acts in representation of the cooperative. They also contend that the applicable law is R.A. No. 6938 or the Cooperative Code of the Philippines

(Cooperative Code),[37] and not the Corporation Code of the Philippines (Corporation Code).

That the applicable law should be the Cooperative Code and not the Corporation Code is not sufficient to warrant a different resolution of this case. Verily, both codes recognize the authority of the BOD, through a duly-issued board resolution, to act and represent the corporation or the cooperative, as the case maybe, in the conduct of official business. In Section 23[38] of the Corporation Code, it is provided that all corporate powers of all corporations formed under the Code shall be exercised by the BOD. All businesses are conducted and all properties of corporations are controlled and held by the same authority. In the same manner, under Section 39 of the Cooperative Code, the BOD is given the power to direct and supervise the business, manages the property of the cooperative and may, by resolution, exercise all such powers of the cooperative. The BOD, however, may authorize a responsible officer to act on its behalf through the issuance of a board resolution attesting to its consent to the representation and providing for the scope of authority.

Nevertheless, there were instances when the Court recognized the authority of some officers to file a case on behalf of the corporation even without the presentation of the board resolution. In *Cagayan Valley Drug Corporation v. Commissioner of Internal Revenue*,[39] it was noted, thus:

> In a slew of cases, however, we have recognized the authority of some corporate officers to sign the verification and certification against forum shopping. In *Mactan-Cebu International Airport Authority v. CA*, we recognized the authority of a general manager or acting general manager to sign the verification and certificate against forum shopping; in *Pfizer v. Galan*, we upheld the validity of a verification signed by an "employment specialist" who had not even presented any proof of her authority to represent the company; in *Novelty Philippines, Inc., v. CA*, we ruled that a personnel officer who signed the petition but did not attach the authority from the company is authorized to sign the verification and non-forum shopping certificate; and

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37 R.A. No. 6938, approved on March 10, 1990, was the law in force at the time of filing of the complaints. It was later amended by R.A. No. 9520 or the *Philippine Cooperative Code of 2008* approved on February 17, 2009.

38 **Sec. 23. *The board of directors or trustees.*** - Unless otherwise provided in this Code, the corporate powers of all corporations formed under this Code shall be exercised, all business conducted and all property of such corporations controlled and held by the board of directors or trustees to be elected from among the holders of stocks, or where there is no stock, from among the members of the corporation, who shall hold office for one (1) year until their successors are elected and qualified.

Every director must own at least one (1) share of the capital stock of the corporation of which he is a director, which share shall stand in his name on the books of the corporation. Any director who ceases to be the owner of at least one (1) share of the capital stock of the corporation of which he is a director shall thereby cease to be a director. Trustees of non-stock corporations must be members thereof. A majority of the directors or trustees of all corporations organized under this Code must be residents of the Philippines.

39 568 Phil. 572 (2008).

> in *Lepanto Consolidated Mining Company v. WMC Resources International Pty. Ltd.* (*Lepanto*), we ruled that the Chairperson of the Board and President of the Company can sign the verification and certificate against non-forum shopping even without the submission of the board's authorization.
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> **In sum, we have held that the following officials or employees of the company can sign the verification and certification without need of a board resolution**: (1) the Chairperson of the Board of Directors, (2) the President of a corporation, **(3) the General Manager or Acting General Manager**, (4) Personnel Officer, and (5) an Employment Specialist in a labor case.[40] (Citation omitted and emphasis ours)

In the abovementioned cases, however, the Court clarified that the determination of the sufficiency of the authority of the concerned officers was done on a case to case basis. The rationale in justifying the authority of corporate officers or representatives of the corporation to sign the verification or certificate against forum shopping is that they are in the best position to verify the truthfulness and correctness of the allegations in the petition.[41] Nonetheless, this was not meant to trump the established rule of issuing a board resolution and appending a copy thereof to the complaint or petition so as to preclude any question on the authority to file the petition, particularly in signing the verification and certification against forum shopping.

Apart from the foregoing, the lack of authority of a corporate officer to undertake an action on behalf of the corporation or cooperative may be cured by ratification through the subsequent issuance of a board resolution, recognizing the validity of the action or the authority of the concerned officer. In *Yasuma v. Heirs of Cecilio S. de Villa*,[42] the Court emphasized, thus:

> [T]he corporation may ratify the unauthorized act of its corporate officer. Ratification means that the principal voluntarily adopts, confirms and gives sanction to some unauthorized act of its agent on its behalf. It is this voluntary choice, knowingly made, which amounts to a ratification of what was theretofore unauthorized and becomes the authorized act of the party so making the ratification. The substance of the doctrine is confirmation after conduct, amounting to a substitute for a prior authority. Ratification can be made either expressly or impliedly. Implied ratification may take various forms—like silence or acquiescence, acts showing approval or adoption of the act, or acceptance and retention of benefits flowing therefrom.[43] (Citations omitted)

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40 Id. at 581.
41 Id. at 581-582.
42 531 Phil. 62 (2006).
43 Id. at 68.

In this case, the respondent expressly recognized the authority of Nacario to file the complaints in Resolution No. 47, Series of 2008,[44] in which the BOD resolved to recognize, ratify and affirm as if the same were fully authorized by the BOD, the filing of the complaints before the MTCC of Naga City by Nacario. In a similar issue raised in *Swedish Match Philippines, Inc. v. The Treasurer of the City of Manila*,[45] the Court upheld the subsequent issuance of a board resolution recognizing the authority of the corporation's finance manager as sufficient to acknowledge the authority of the said officer to file a petition with the RTC on behalf of the corporation. It ratiocinated that, by virtue of the issuance of the board resolution, the corporation ratified the authority of the concerned corporate officer to represent it in the petition filed before the RTC and consequently to sign the verification and certification of non-forum shopping on behalf of the corporation.[46] Here, considering that Nacario's authority had been ratified by the BOD, there is no reason for the Court not to uphold said authority.

Mediation before the Cooperative Development Authority (CDA) is not compulsory.

The petitioners likewise raised an issue with respect to the lack of effort on the part of the respondent to resort to mediation before the CDA prior to filing the complaints in court.

Indeed, expressed in Section 121 of the Cooperative Code is the preference for the amicable settlement of disputes before the CDA. It does not appear, however, that mediation or conciliation is a mandatory requirement that is considered fatal to a case directly filed in a regular court. The provision reads as follows:

> Sec. 121. *Settlement of Disputes.* Disputes among members, officers, directors and committee members, and intra-cooperative disputes shall, as far as practicable, be settled amicably in accordance with the conciliation or mediation mechanisms embodied in the by-laws of the cooperative, and in applicable laws.
>
> Should such a conciliation/mediation proceeding fail, the matter shall be settled in a court of competent jurisdiction.

The non-compulsory nature of the resort to mediation is evident from the language of the provision. The decision to mediate depends on the submission of one or both parties to undergo the procedure by

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44 CA *rollo*, p. 133.
45 713 Phil. 240 (2013).
46 Id. at 248-251.

requesting the CDA to mediate, coupled with the parties' mutual agreement to recognize its authority. The procedure therefore is optional and rests on the parties' agreement to submit to the same. Clearly, it is not mandatory to undergo mediation first before seeking recourse to regular courts. This being the case, the respondent's direct resort to the court is not fatal to its cases.

The requirement for demand or notice may be waived.

Anent the petitioners' claim that no notice or demand was sent to them, the CA correctly ruled that the instant case falls under the exceptions to the necessity of demand. Specifically, Article 1169, paragraph 1 of the Civil Code provides that demand is not necessary when the obligation or the law expressly so declares. In the promissory notes signed by the petitioners, there is a uniform provision which states that "[i]n case of default in payment of any installment due as herein agreed, the entire balance of this note shall immediately become due and payable at the option of the [respondent] *without any notice or demand.*" This amounts to the express waiver of the need for demand before the debtor incurs in delay.

The petitioners cannot evade liability by invoking that the stipulation on the waiver of notice applies only to the principal. It bears noting that the promissory notes state that the petitioners bound themselves jointly and severally liable with the principal debtor for the entire amount of the obligation. A solidary or joint and several obligation is one in which each debtor is liable for the entire obligation.[47] The petitioners being co-makers, their liability is immediate and absolute as the principal debtor. The terms of the promissory notes apply to co-makers in equal force as with the principal debtors. This includes stipulation on the waiver of notice from the creditor before the obligation becomes due and demandable.

The interest imposed on the money judgment must be modified to conform to prevailing jurisprudence.

The RTC, in its decision, ruled that the stipulated interest rates of 2.3% per month and 2% surcharge per month are excessive and unconscionable as the combination of these rates already amounted to 51.6% of the principal. Finding such stipulation void for being exorbitant and therefore contrary to morals, if not against the law, it reduced the rate of

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47 *Inciong, Jr. v. CA*, 327 Phil. 364, 372 (1996).

interest and surcharge to 1% per month or twelve percent (12%) *per annum*, which was then the prevailing rate of legal interest.

Such ruling of the RTC finds support in a plethora of cases where this Court ruled that the imposition of iniquitous and unconscionable interest rate renders the same void and warrants the imposition of the legal interest rate. In *Ruiz v. CA*,[48] the Court found the 3% interest imposed on four promissory notes as excessive and equitably reduced the same to 12% *per annum*. Likewise, in *Chua, et al. v. Timan, et al.*,[49] the Court ruled that the stipulated interest rates of 7% and 5% per month imposed on loans are excessive and reduced the same to the legal rate of 1% per month or 12% *per annum*. And, in *Macalinao v. Bank of the Philippine Islands*,[50] the Court further reduced the 3% interest imposed by the CA on purchases made using Bank of the Philippine Islands credit card to 1% per month, finding that 36% *per annum* of interest, which even excludes penalty charges, is excessive and unconscionable.

In this case, the RTC correctly ruled that the stipulated interest rate of 2.3% per month on the promissory notes and 2% per month surcharge are excessive, iniquitous, exorbitant and unconscionable, thus, rendering the same void. Since the stipulation on the interest rate is void, it is as if there was no express contract thereon, in which case, courts may reduce the interest rate as reason and equity demand.[51] Thus, it is only just and reasonable for the RTC to reduce the interest to the acceptable legal rate of 1% per month or 12% *per annum*. This ruling was affirmed by the CA.

In view, however, of the ruling of this Court in *Nacar v. Gallery Frames, et al.*,[52] there is a need to modify the rate of legal interest imposed on the money judgment in order to conform to the prevailing jurisprudence. In the said case, the Court discussed the modification on the rules in the imposition or computation of legal interest laid down in the landmark case of *Eastern Shipping Lines, Inc. v. Court of Appeals*,[53] brought about by Resolution No. 796 dated May 16, 2013 issued by the Bangko Sentral ng Pilipinas Monetary Board. The pertinent portion in *Nacar* reads as follows:

> Recently, however, the Bangko Sentral ng Pilipinas Monetary Board (BSP-MB), in its Resolution No. 796 dated May 16, 2013, approved the amendment of Section 2 of Circular No. 905, Series of 1982

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48 449 Phil. 419 (2003).
49 584 Phil. 144 (2008).
50 616 Phil. 60 (2009).
51 Id. at 69.
52 716 Phil. 267 (2013).
53 G.R. No. 97412, July 12, 1994, 234 SCRA 78.

and, accordingly, issued Circular No. 799, Series of 2013, effective July 1, 2013, the pertinent portion of which reads:

> 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.

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. x x x.[54] (Citations omitted and emphasis ours)

Consistent with the foregoing, the Court hereby reduces the rate of interest on the principal loans to six percent (6%) *per annum* and the surcharge imposed thereon also to the prevailing legal rate of six percent (6%) *per annum.*

WHEREFORE, premises considered, the Decision dated March 17, 2014 and the Resolution dated August 4, 2014 of the Court of Appeals, in CA-G.R. SP No. 123602, are hereby **AFFIRMED with MODIFICATION** in that the interest rate on the principal amount of the loans stated in the promissory notes and the corresponding surcharge for default in payment are respectively reduced to the prevailing legal rate of six percent (6%) *per annum.*

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54 *Nacar v. Gallery Frames, et al.*, supra note 52, at 279-281.

SO ORDERED.

BIENVENIDO L. REYES
Associate Justice

WE CONCUR:

PRESBITERO J. VELASCO, JR.
Associate Justice
Chairperson

DIOSDADO M. PERALTA
Associate Justice

JOSE PORTUGAL PEREZ
Associate Justice

FRANCIS H. JARDELEZA
Associate Justice

ATTESTATION

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

PRESBITERO J. VELASCO, JR.
Associate Justice
Chairperson

CERTIFICATION

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

MARIA LOURDES P. A. SERENO
Chief Justice

CERTIFIED TRUE COPY
WILFREDO V. LAPITAN
Division Clerk of Court
Third Division
DEC 01 2016