

Title: Borromeo et al. v. Court of Appeals and Villamor et al.

Facts: Canuto O. Borromeo lent a significant amount of money to his friend and former classmate Jose A. Villamor, who secured the loan with a mortgage on his land and house in Cebu City. However, the mortgage was not enforceable due to improper documentation, and Villamor's properties were attached in a lawsuit by another creditor, Mr. Miller. Borromeo pressed for repayment, but Villamor could not settle the debt at that time. Instead, Villamor executed a promissory note on November 29, 1933, for P7,220.00 with 12% interest per annum, agreeing to pay "as soon as I have money" and waiving his right to the defense of prescription "even after the lapse of ten years" from the date of the note. Repeated oral demands for payment after World War II were unsuccessful, leading to a suit filed by Borromeo on January 7, 1953. The Court of First Instance of Cebu favored Borromeo, but the decision was reversed by the Court of Appeals on the ground that a person cannot waive future prescription. The case escalated to the Supreme Court upon the filing of a petition for review by the heirs of Borromeo.

Issues:

1. Whether the stipulation in the promissory note regarding waiver of the defense of prescription after ten years is valid.
2. The proper interpretation of the said stipulation.
3. The applicability of prescription to the obligation involved in the case.
4. Whether an action to fix the period within which the debtor is to pay and for collection can be combined in a lawsuit.

Court's Decision:

The Supreme Court reversed the decision of the Court of Appeals, ruling that the stipulation in the promissory note should not be interpreted literally if it contradicts the parties' evident intention. The Court held that the phrase waiving the right to prescription should be construed as an undertaking by the debtor to pay the obligation even after the lapse of the ten-year prescriptive period. This, however, does not mean that the debtor was barred from demanding payment within the said period; instead, it was an expression of the creditor's leniency. By ignoring the first ten-year period post-execution of the note, the complaint filed in 1953 was deemed timely as it was within a fresh ten-year prescriptive period that began to run from November 29, 1943. The Court held that substantial justice and equity should not be disregarded, and the valid and legal parts of a contract should be separated from the void terms where possible to give effect to the parties' intention.

Doctrine:

The decision of the Supreme Court in this case reinforces several legal doctrines:

- The principle of interpreting contracts according to the parties' intention, as opposed to a strict literal interpretation, based on Article 1370 of the Civil Code.
- A stipulation in a contract that is contrary to law, morals, or public order should be separated from the valid parts, to preserve the intent of the contracting parties, in line with Article 1306 of the Civil Code.
- Prescriptive periods can be affected by mutual agreements of the parties provided such stipulations are not contrary to law, morals, good customs, public order, or public policy based on Articles 1112 and 1306 of the Civil Code.
- An action to fix the period for performance can be combined with an action for collection of the unpaid amount pursuant to the principle that contracts are the law between the parties and a court's pursuit of substantial justice and equity.

Class Notes:

- Contracts: Interpret according to the parties' intention (Art. 1370, Civil Code).
- Separate illegal from legal stipulations in a contract (Art. 1306, Civil Code).
- Actions for fixing of period and collection combined are permissible.
- Prescription of actions: Can be influenced by agreements but must conform with law (Arts. 1112, 1306, Civil Code).
- Equity: Justice and fairness should guide contract interpretation and enforcement.

Historical Background: The case provides a historical perspective on credit transactions during the pre-war era in the Philippines, illustrating the informal lending practices among individuals. It also reflects the judicial approach to contract interpretation at that time and the gradual shift from strict literalism to acknowledging the parties' intentions, within the bounds of justice and fairness, as the basis for contract analysis.