

Title: Cu Unjieng e Hijos vs. The Mabalacat Sugar Co. et al.

Facts:

Cu Unjieng e Hijos initiated a lawsuit in the Court of First Instance of Pampanga seeking to recover from Mabalacat Sugar Company an indebtedness exceeding P163,000, along with interest, attorney's fees, insurance payments, and incidental relief. The case also involved Siuliong & Co., Inc. as a defendant due to its third mortgage on the property and its surety status for Mabalacat Sugar Company, and the Philippine National Bank, as it held the second mortgage. Mabalacat Sugar Company's failure to meet the payment deadlines led to this legal action, seeking foreclosure of the mortgage securing the debt.

The trial proceeded after the defendants filed their respective answers. The court ruled in favor of Cu Unjieng e Hijos, ordering Mabalacat Sugar Company to pay the debt with interest, insurance premiums, attorney's fees, and costs of the suit. Mabalacat appealed to the Supreme Court, arguing against the trial court's decisions concerning the action's premature initiation, the computation of interest, the attorney's fees, and the court's denial of Mabalacat's request to amend its answer.

Issues:

1. Whether the action was prematurely started.
2. The propriety of the interest charges applied by Cu Unjieng e Hijos.
3. The reasonableness of the awarded attorney's fees.
4. The trial court's refusal to allow Mabalacat Sugar Company's amendment to its answer.

Court's Decision:

1. **Premature Action**: The Supreme Court found that the creditor, Cu Unjieng e Hijos, was justified in declaring the entire debt due following Mabalacat's failure to meet the specified installments. The agreement to extend payment terms was deemed voluntary and without consideration, thus not preventing the creditor from treating the entire debt as due upon failure to meet the extended terms.
2. **Interest Charges**: The Court clarified that while parties may stipulate compound interest, it cannot be charged upon interest without such stipulation. The Court disagreed with the trial court's interpretation that allowed for the accumulation of compound interest on monthly interest, reducing the principal owed by P1,136.12.
3. **Attorney's Fees**: The Supreme Court saw no issue with the attorney's fees awarded, considering them not excessive and within the contractual stipulation.

4. **Denial of Amendment**: The denial to amend the answer was deemed a matter of discretion for the trial court, with no shown abuse of discretion.

Doctrine:

The Supreme Court reaffirmed the principle that, in the absence of an express stipulation, interest cannot be compounded, and payments made under an unlawful rate of interest are not binding.

Class Notes:

- **Mortgage Debt Acceleration**: A creditor may treat the entire debt as due if the debtor fails to meet any of the obligations assumed under the mortgage contract.
- **Compound Interest**: Cannot be charged on interest without express stipulation between parties.
- **Attorney's Fees**: Contractually stipulated attorney's fees are generally upheld unless proven to be exorbitant.
- **Amendment of Pleadings**: The decision to allow amendments to pleadings is at the discretion of the court, and such discretion must not be shown to be abused.

Historical Background:

This case illustrates early 20th-century practices regarding mortgage debts, interest computations, and the legal recourse available to lenders in the Philippine legal system. It reflects the courts' approach to interpreting contractual agreements and the limits of legal discretion at the time, emphasizing the need for explicit terms to guide the calculation of interests and the enforcement of financial obligations.