

Title: Angel Jose Warehousing Co., Inc. vs. Chelda Enterprises and David Syjueco

Facts:

On May 29, 1964, Angel Jose Warehousing Co., Inc. filed a lawsuit in the Court of First Instance of Manila against Chelda Enterprises and David Syjueco, seeking the recovery of unpaid loans totaling P20,880.00, plus legal interests from the date of the complaint, and attorney's fees amounting to P5,000.00. The company claimed that post-dated checks issued by the defendants to settle the account were dishonored. They also alleged that the defendants had either disposed of or were planning to dispose of their properties to defraud their creditors, leading to a request for a preliminary attachment.

The defendants responded by admitting to obtaining four loans amounting to P26,500.00 in total, of which P5,620.00 had already been repaid, leaving the said balance. However, they contended that the plaintiff deducted usurious interest rates from the loans, thus arguing that the plaintiff's action was without cause and barred under the law. A counterclaim for P2,000.00 in attorney's fees was also lodged against the plaintiff.

After a series of legal proceedings, the trial court, on November 10, 1965, ruled in favor of the plaintiff but acknowledged the deduction of usurious interests from the loans, hence adjusting the dues. Discontented, the defendants appealed directly to the Supreme Court, raising critical legal questions.

Issues:

1. Can a creditor recover the principal amount of a loan in a situation where usurious interest was charged?
2. Is the awarding of attorney's fees to the plaintiff justified?

Court's Decision:

On the principal recovery, the Supreme Court held that a contract of loan with usurious interest is valid concerning the principal but void as to the usurious interest. Drawing from existing statutory laws and prior jurisprudential doctrines, it clarified that the illegal terms pertaining to the usurious interest do not invalidate the entire contract, particularly the agreement on the principal loan amount. Thus, the creditor can recover the principal amount without the usurious interest.

Concerning the attorney's fees, the Supreme Court found no sufficient basis for such an award beyond the stated reasons of refusal to pay by the defendants. Absent an explicit qualification under the exceptions where recovery of attorney's fees is permitted, the award

was deemed unjustified and was consequently removed from the court's directives.

Doctrine:

The case reinforced the doctrine that in a loan agreement where usurious interest is charged, the agreement regarding the principal amount remains valid and enforceable, whereas the stipulation concerning the usurious interest is deemed void. Furthermore, the recovery of attorney's fees requires a clear basis that falls within the exceptions provided by law, failing which such claims are unfounded.

Class Notes:

- **Principal vs. Accessory Obligations**: In contracts with usurious interest, the principal obligation (repayment of the loan amount) is separate and enforceable independently from the accessory obligation (payment of interest), which can be deemed void if found usurious.
- **Article 1411, NCC**: Applies the rule of in pari delicto in contracts nullified by illegal cause or object, but exceptions apply, enabling recovery under specific conditions.
- **Usury Law vs. Civil Code**: The Civil Code and the Usury Law coexist, with the latter providing mechanisms for the recovery of excess interest paid, while the former allows for the enforceability of the principal debt agreement.
- **Article 2208, NCC**: Stipulates the conditions under which attorney's fees may be awarded, emphasizing the necessity of a stipulation or fitting within particular exceptions.

Historical Background:

This case unfolds within the broader context of the Philippines' evolving legal landscape concerning usury and the enforcement of loan agreements. Reflecting a transitional phase, it underscores the Supreme Court's role in clarifying and harmonizing the provisions of the New Civil Code with the Usury Law, ensuring fairness and preventing the unjust enrichment of any party involved in usurious loan agreements.