### Title:
Ligutan and Dela Llana v. Court of Appeals and Security Bank and Trust Company

### Facts:
Tolomeo Ligutan and Leonidas dela Llana ("petitioners") obtained a loan of PHP 120,000.00 from the Security Bank and Trust Company ("respondent bank") on May 11, 1981. They executed a promissory note, agreeing to repay this amount with a 15.189% annual interest upon maturity, and incur a 5% monthly penalty on any outstanding amount upon default, along with a 10% attorney's fee if the matter went into legal proceedings for recovery. Despite the bank granting an extension from the original maturity date of September 8, 1981, to December 29, 1981, petitioners failed to settle their debt which amounted to PHP 114,416.10 by May 20, 1982.

After a final demand letter on September 30, 1982, and the consequent default from the petitioners, the respondent bank filed a complaint for recovery with the Regional Trial Court of Makati on November 3, 1982. The trial ensued with the petitioners waiving their right to present evidence due to their absence on the final hearing date, August 28, 1985. Subsequently, they moved for reconsideration, which was denied. The trial court ruled in favor of respondent bank on October 20, 1989, mandating the petitioners to pay the outstanding amount with the stipulated interest, penalty charge, attorney's fees, and the costs of the suit.

The petitioners appealed to the Court of Appeals, which affirmed the trial court's ruling but deleted the 2% service charge. Both parties filed motions for reconsideration wherein petitioners sought to reduce the penalty interest, and the respondent bank sought interest and penalty to commence from the date of default as stipulated in the contract. The appellate court partially granted both motions on October 28, 1998, albeit the penalty was reduced to 3% per month (36% per annum). The petitioners' subsequent omnibus motion was denied.

### Issues:
1. Whether the 15.189% interest rate and the 3% monthly penalty are unconscionable.
2. Whether the 10% attorney's fee is excessively high.
3. The refusal of admitting petitioners' newly discovered evidence alleging a novation through the execution of a real estate mortgage.
4. Whether there was a novation of the original loan obligation due to the subsequent real estate mortgage.

### Court's Decision:
1. **Interest Rate and Penalty**: The Supreme Court did not find the reduced 3% monthly penalty unconscionable, given the repeated defaults by petitioners.
2. **Attorney's Fees**: The Court upheld the 10% attorney's fees as reasonable considering the agreement between parties and the bank's collection efforts.
3. **Newly Discovered Evidence**: The appellate court properly rejected this on procedural grounds, noting the petitioners were aware of the evidence during the appeal.
4. **Alleged Novation**: The execution of a real estate mortgage did not constitute a novation of the original loan obligation. Novation, as a legal concept, requires a clear intention to replace the old obligation with a new one, which was absent in this case.

### Doctrine:
The Supreme Court reiterated the principle that a penal clause in a loan agreement is valid but may be reduced if it is deemed iniquitous or unconscionable. Moreover, it highlighted the requirements for a novation to occur and how fundamental changes to the obligation are necessary for its establishment.

### Class Notes:
– **Penal Clause**: Recognized by law, can be reduced if iniquitous/unconscionable.
– **Novation**: Requires a previous valid obligation, agreement of all parties to a new contract, extinguishment of the old obligation, and the validity of the new one. Must be expressed or demonstratively incompatible.
– **Interest vs. Penalty**: Distinguished as separate concepts, with the court allowed to temper only when deemed excessively onerous.
– **Attorney's Fees**: Can be upheld if reasonably stipulated by the parties and justified by the services rendered.

### Historical Background:
This case occurs in the context of the Philippine judicial system's approach in balancing contractual freedoms with the need to protect against unconscionable agreements. The Court's decision reflects a commitment to uphold contractual terms while ensuring equity and fairness, demonstrating the judiciary's role in interpreting and enforcing loan agreements and related penal provisions.