Title:
Social Security System vs. Moonwalk Development & Housing Corporation

Facts:
The Social Security System (SSS) initiated a lawsuit against Moonwalk Development & Housing Corporation (Moonwalk) and others, claiming an error in the computation of a 12% interest on late payments regarding a loan agreement. This purported error led to a domino effect of miscalculations, culminating in what SSS identified as an unpaid balance on both the principal and delayed payment penalties as of October 10, 1979. Moonwalk, disputing SSS's claims, contended that SSS had ample opportunity to correct these inaccuracies but failed to do so. The trial court, after a pre-trial conference and submission of a stipulated set of facts, dismissed SSS's complaint. It reasoned that the obligation had been extinguished by Moonwalk's payments and SSS's action of canceling the real estate mortgages. SSS's motion for reconsideration was denied, leading to an appeal to the Intermediate Appellate Court, which upheld the trial court's decision. SSS then filed a petition for review on certiorari to the Supreme Court.

Issues:
1. Whether Moonwalk's obligations, including penalties, were extinguished upon payment of the principal obligation and subsequent action by SSS.
2. Whether SSS expressly waived the penalties due from Moonwalk.
3. Whether SSS, as a trustee of public funds, could condone penalties to the potential detriment of its beneficiaries.

Court's Decision:
The Supreme Court affirmed the decision of the Intermediate Appellate Court, stating Moonwalk's obligations, including penalties, were deemed extinguished upon the full payment of the loan and the cancellation of the real estate mortgages.

– **On the issue of penalty demandability**: The Court determined that the penalty could not be demanded after the extinguishment of the principal obligation, as penalties serve to enforce performance of the main obligation, which in this case had been fully satisfied.
– **On the matter of waiver**: The Court found no evidence of an express waiver by SSS concerning the penalties, as waiver requires a clear, unequivocal intent which was not present in this case.
– **Regarding SSS's duty as a trustee**: The Court distinguished between penalties provided for under contractual obligations and statutory penalties, concluding SSS's action

did not infringe on its role as a trustee, given that at the core was a contractual dispute not involving statutory penalties or premiums.

Doctrine:
The decision reiterated the principle that in obligations with a penal clause, the penalty shall substitute the indemnity for damages and the payment of interests in case of non-compliance, if there is no contrary stipulation. Moreover, it emphasized that penalties are accessory obligations dependent on the existence of a principal obligation, which cannot be demanded after the principal obligation has been extinguished. Additionally, demand by the creditor is necessary for the debtor to be in default.

Class Notes:
– **Penal Clause in Obligations**: Designed to ensure performance by imposing a special performance in case of non-fulfillment. It’s accessory and dependent on a principal obligation.
– **Doctrine of Demand before Default**: Default requires (1) liquidated and demandable obligation; (2) delay by the debtor; (3) judicial or extrajudicial demand by the creditor, with exceptions to this requirement specified in the Civil Code.

Historical Background:
This case reflects the meticulous examination by the Philippine Supreme Court of the agreements and actions between the Social Security System, a government institution meant to provide social security to its members, and a private entity regarding loan obligations. It underscores the integrity of contract terms, the importance of express waiver, and distinguishes between penalties under statutory obligations and those under contractual agreements.