

****Title: Spouses Joven Sy and Corazon Que Sy vs. China Banking Corporation****

****Facts:****

This case revolves around the petitioners, the Spouses Joven Sy and Corazon Que Sy, and their monetary obligations to the respondent, China Banking Corporation (China Bank), subsequent to their failure to comply with three promissory notes (PNs). Originally, the petitioners entered into an agreement involving three PNs amounting to a total of P19.9 Million with various terms of payments and interest rates. These PNs were backed by a real estate mortgage over one of the petitioner's properties as security. Upon default, China Bank executed the foreclosure of the mortgaged property, which only covered about half of the petitioners' outstanding loan amount, leading to China Bank's demand for the deficiency and subsequent legal actions to recover the remaining balance.

China Bank initiated a complaint before the Regional Trial Court (RTC) in Makati City for the collection of the deficiency sum plus additional penalties, attorney's fees, and costs. The petitioners, after failing to attend the trial for presenting their evidence, eventually faced an RTC decision ordering them to pay a deficiency balance inclusive of penalties and modified attorney's fees, based on China Bank's representations and computations.

Challenging the RTC's decision, the petitioners raised their concerns to the Court of Appeals (CA), which upheld the RTC's ruling. Dissatisfied, the petitioners then elevated their case to the Supreme Court, arguing on the grounds of mathematical errors in the computation of the obligation, specifically pointing out inconsistencies in the application of penalty charges and attorney's fees.

****Issues:****

1. Whether the Court of Appeals erred in affirming the RTC's decision despite the dispute on the mathematical computation of the deficiency balance, including the penalty charges and attorney's fees.
2. Whether the terms of the promissory notes and real estate mortgage regarding penalties and attorney's fees were unconscionable and thus should be adjusted.

****Court's Decision:****

The Supreme Court partly granted the petition, recognizing that there were indeed palpable errors and inconsistencies in the computation of the penalty charges and attorney's fees by

the lower courts. Specifically, the Supreme Court found fault in:

- The daily compounding of penalty charges based on an agreed 1/10 of 1% per day as unjust and declared that a reduced rate of 1% per month was proper.
- The computation basis for the interest charges, refuting the 360-day year basis and affirming that a 365-day year should have been used.
- The amount of attorney's fees included in the deficiency balance, which was deemed unreasonable; thus, favoring a significant reduction.

The Supreme Court modified the earlier rulings by affirming the deficiency balance with modifications. The Court decreed that the petitioner should pay the reduced amount of P7,734,132.93 representing this balance, net of foreclosure proceeds, plus legal interest.

****Doctrine:****

The doctrine established stresses the power of judicial discretion in modifying iniquitous or unconscionable penalty clauses stipulated in contracts, based on Article 1229 of the Civil Code of the Philippines which allows for the equitable reduction of penalties when found excessive.

****Class Notes:****

- ****Promissory Notes and Obligations****: In loan agreements, the terms outlined in promissory notes including interest rate, penalty charges, and attorney's fees should be clear and not unconscionable.
- ****Foreclosure and Deficiency Balance****: Upon foreclosure, if the sale proceeds do not cover the outstanding loan, lenders may demand the difference or the "deficiency balance".
- ****Judicial Discretion on Penalties****: Courts have the authority under Article 1229 of the Civil Code to equitably reduce penalty charges deemed unconscionable or excessively burdensome.
- ****365-Day Year in Interest Computation****: Legal interest computations should adopt a 365-day year basis as opposed to 360, in the absence of agreement to the contrary.

****Historical Background:****

This case underscores the judiciary's vital role in ensuring fairness and equity in contractual agreements, especially in financial transactions involving loan obligations. By addressing the issue of iniquitous penalties and fees, the Supreme Court demonstrated its commitment

to protecting the interests of borrowers against disproportionate penalties, upholding justice and reasonableness in commercial dealings.