

Title: Cabarroguis v. Vicente

Facts:

On March 15, 1955, Antonia A. Cabarroguis, a registered nurse and midwife, was a passenger in a “jeepney” owned and operated by Telesforo B. Vicente when it collided with another vehicle in Davao City, resulting in injuries to Cabarroguis, including permanent partial disability to her right forearm. To avoid litigation, a compromise agreement was made on July 13, 1955, requiring Vicente to pay Cabarroguis P2,500 as damages, of which he paid only P1,500, leaving an unpaid balance of P1,000. Failure to complete payment within sixty days would incur an additional P200 as liquidated damages.

Vicente failed to fulfill this obligation, leading to Cabarroguis filing a lawsuit in the Municipal Court of Davao City, which ruled in her favor. Vicente appealed to the Court of First Instance, which dismissed his defenses as mere afterthoughts and ordered him to pay P1,200 with legal interest from the date of complaint filing. Vicente then appealed to the Court of Appeals, which turned the case over to the Supreme Court due to a legal question regarding the imposition of interest.

Issues:

The main legal issue concerns the applicability of interest on the principal amount and the penalty due to the breach of the compromise agreement under Articles 1226, 2209, 2196, 2197, and 2210 of the new Civil Code.

Court’s Decision:

The Supreme Court ruled that interest cannot be imposed on the principal obligation due to the penal clause substituting for indemnity for damages and payment of interest, per Article 1226 of the new Civil Code. However, it stated that interest on the penalty is applicable since both the principal obligation and the penalty can be demanded if the debtor defaults (citing *Government vs. Lim and Luneta Motor Co. vs. Moral*). The decision was modified to allow interest on the penalty amount, affirming the lower court’s decision with this modification.

Doctrine:

The decision reiterated the doctrine that in obligations with a penal clause, the penalty substitutes the indemnity for damages and the payment of interests, except under specified conditions. It also highlighted the creditor’s entitlement to interest on the penalty amount if the debtor refuses payment upon demand.

Class Notes:

- Penal Clause in Obligations: Article 1226, New Civil Code - A penalty in a contract substitutes for damages and interest unless otherwise stipulated or under specified conditions.
- Demand for Payment: Interest on damages or penalties can accrue from the time of judicial or extrajudicial demand.
- Breach of Contract Damages: According to Article 2210, New Civil Code, interest may be imposed upon damages for breach of contract from the time of delay.

Historical Background:

This case provides insight into the application of the New Civil Code provisions on obligations and contracts, particularly regarding penal clauses, damages, and interest, during the mid-20th century in the Philippines. It sheds light on the judicial process in determining liabilities and remedies in contractual disputes, reflecting the evolving legal interpretations and applications of the time.