

**\*\*Title:\*\*** Rizal Commercial Banking Corporation vs. Court of Appeals and Felipe Lustre, G.R. No. 116896, September 14, 1999

**\*\*Facts:\*\***

1. **\*Initial Purchase and Issuance of Checks\*** - On March 10, 1991, Atty. Felipe Lustre purchased a Toyota Corolla from Toyota Shaw, Inc. He made a down payment of P164,620, with the balance to be paid in 24 monthly installments of P14,976 each. He issued 24 postdated checks, the first dated April 10, 1991, and the rest dated every 10th of the succeeding months.
2. **\*Chattel Mortgage and Assignment\*** - Lustre executed a promissory note and chattel mortgage over the vehicle in favor of Toyota Shaw, Inc. The chattel mortgage included an acceleration clause that made the entire remaining balance due if Lustre defaulted on any installment. On March 14, 1991, Toyota Shaw, Inc. assigned its rights to Rizal Commercial Banking Corporation (RCBC).
3. **\*Unsigned Check and Bank's Procedural Misconduct\*** - All checks from April 10, 1991, to January 10, 1993, were encashed and debited except one unsigned check dated August 10, 1991. The amount was initially debited but later re-credited to Lustre's account. Due to RCBC's procedure, they did not present the last two checks (February and March 1993) for payment.
4. **\*Demand and Filings\*** - On January 21, 1993, RCBC demanded full payment due to the unsigned check but Lustre refused. RCBC filed an action for replevin and damages. Lustre counterclaimed for damages.
5. **\*RTC Ruling\*** - Pasay City RTC dismissed RCBC's complaint, ordered RCBC to accept payment of P44,938 (amount of three checks), release the mortgage, and pay damages (P200,000 moral, P100,000 exemplary, and P50,000 attorney's fees).
6. **\*Court of Appeals\*** - Affirmed RTC's decision, ruling against RCBC by construing the contract strictly against them and recognizing Lustre's inadvertence in not signing the check.

**\*\*Issues:\*\***

1. Whether Lustre defaulted on his obligations justifying the acceleration clause of the chattel mortgage.
2. Whether RCBC acted in bad faith by demanding the entire balance and filing for replevin without proper notice.
3. Whether the interpretation of contracts of adhesion should automatically be against the drafter in the absence of ambiguity.
4. The appropriateness of the damage awards granted by the RTC.

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

1. **\*Default and Acceleration Clause Application\*** - The Supreme Court found that Lustre's default was not deliberate. The unsigned check's value had been withdrawn and later re-credited without Lustre's knowledge. Further, RCBC failed to notify Lustre timely, making their invocation of the acceleration clause unjustified.
2. **\*Bad Faith and Procedural Misconduct\*** - RCBC displayed bad faith by not informing Lustre about the unsigned check and immediately taking severe action without attempting simple rectification like requesting Lustre's signature on the check.
3. **\*Contracts of Adhesion\*** - The Court emphasized that contracts of adhesion, though generally construed against their drafters, require ambiguity for such rule to apply. However, in this case, RCBC's mechanical reliance on the contract's provisions without considering fairness was unwarranted.
4. **\*Damage Awards\*** - The awards for moral and exemplary damages were affirmed but reduced (moral damages from P200,000 to P100,000, exemplary from P100,000 to P75,000, attorney's fees from P50,000 to P30,000).

**\*\*Doctrine:\*\***

- **\*\*Contracts of Adhesion\*\*** - These contracts are enforceable and not inherently void unless the terms are ambiguous or lead to oppressive outcomes.
- **\*\*Good Faith in Compliance\*\*** - Entities must act in good faith both in fulfilling contractual duties and human dealings, as emphasized by Article 19 of the Civil Code, requiring behavior with justice, fairness, and good faith.

**\*\*Class Notes:\*\***

- **\*\*Key Concepts:\*\***
  - Contracts of adhesion
  - Good faith in obligation performance
  - Acceleration clauses in contract law
  - Interpretation of ambiguous contractual terms against the drafter (Article 1377, Civil Code).
- **\*\*Relevant Statutory Provisions\*\*:**
  - Article 19: Every person must act with justice, give everyone his due, and observe honesty and good faith.
  - Article 1159: Obligations derived from contracts have the force of law between the contracting parties and should be complied with in good faith.
  - Article 2217: Aspects of moral damages include physical suffering, mental anguish, etc.
  - Article 2229: Exemplary damages to be imposed in addition to moral damages.

**\*\*Historical Background:\*\***

The case exemplifies the period's evolving jurisprudence regarding contracts of adhesion and the balancing act courts engaged in protecting less powerful contracting parties from unfair treatment by more powerful entities like banks. It underscores the judiciary's role in ensuring equitable dealings in commercial transactions amidst the rapid financial sector's growth in the 1990s.