

****Title**:** KT Construction Supply, Inc. vs. Philippine Savings Bank, 811 Phil. 626 (2017)

****Facts**:**

- On October 12, 2006, KT Construction Supply, Inc. (KT Construction) obtained a loan of PHP 2.5 million from Philippine Savings Bank (PSBank), evidenced by a Promissory Note executed on the same date.
- The promissory note, signed by William K. Go and Nancy Go-Tan in their capacities as Vice-President/General Manager and Secretary/Treasurer of KT Construction, respectively, also stipulated their personal liability.
- The note specified the loan's repayment period as 60 months, from November 12, 2006, to October 12, 2011, and included a provision for attorney's fees in case of litigation.
- On January 3, 2011, PSBank issued a demand letter to KT Construction for an outstanding balance of PHP 725,438.81.
- Due to non-payment, PSBank filed a complaint for a sum of money against KT Construction.

****Procedural Posture**:**

- The RTC of Makati City ruled in favor of PSBank on June 11, 2014, holding KT Construction and the signatories personally liable. The court, however, reduced the interest and interest fees, labeling them unconscionable.
- The CA, on April 22, 2016, modified the RTC decision, affirming the joint and several liabilities but adjusting the legal interest to 6% per annum from the finality until full payment and directing the collection of additional docket fees from PSBank.
- KT Construction filed for reconsideration, which was denied on November 23, 2016.
- This led KT Construction to appeal to the Supreme Court.

****Issues**:**

1. Whether William Go and Nancy Go-Tan can be held jointly and severally liable with KT Construction without having been impleaded or served with summons.
2. Whether the complaint by PSBank was prematurely filed.
3. Whether the promissory note should be declared void as a contract of adhesion.
4. Whether the award of attorney's fees in PSBank's favor was justified.

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

1. ****Jurisdiction over Individuals**:**
 - ****Issue**:** Go and Go-Tan's personal liability.

- **Ruling**: Go and Go-Tan were not impleaded nor served with summons. Therefore, the RTC did not acquire jurisdiction over them, making the trial court's ruling on their solidary liability improper.

2. **Acceleration Clause and Prematurity of Complaint**:

- **Issue**: Whether the complaint was prematurely filed.

- **Ruling**: The acceleration clause in the promissory note validly made the entire obligation due upon default of any installment, even if demand was waived. The court found that the complaint was not premature.

3. **Contract of Adhesion**:

- **Issue**: Validity of the promissory note as a contract of adhesion.

- **Ruling**: The promissory note, though potentially a contract of adhesion, is not per se invalid. KT Construction voluntarily signed the contract, indicating consent to its terms.

4. **Attorney's Fees**:

- **Issue**: Legitimacy of awarding attorney's fees.

- **Ruling**: The award of attorney's fees was stipulated in the promissory note as a penal clause. Therefore, it was valid and enforceable.

Doctrine:

- **Acceleration Clause Validity**: An acceleration clause that makes the entire obligation due and demandable upon default in paying any installment is legally effective.

- **Contract of Adhesion**: A contract of adhesion is not inherently void; its validity depends on the consent of the parties.

- **Attorney's Fees as Penal Clause**: Attorney's fees stipulated in a contract as a penal clause are binding.

Class Notes:

- **Acceleration Clause**: Enforces the entire debt upon default in an installment without further demand.

- **Contract of Adhesion**: Not inherently void; parties must agree to terms.

- **Jurisdiction Requirement**: Personal liability cannot be enforced without proper party inclusion and service of summons.

- **Attorney's Fees**: Bound by contractual stipulation.

Historical Background:

- The case emphasizes contractual obligations, particularly regarding loan agreements,

acceleration clauses, and personal liability in corporate contexts.

- Reflects the judicial approach to adhesion contracts, balancing form contracts' harshness with the necessity of consent.