

ANTONIO LO, PETITIONER, VS. THE HON. COURT OF APPEALS AND NATIONAL ONIONS GROWERS COOPERATIVE MARKETING ASSOCIATION, INC., RESPONDENTS.

G.R. No. 141434. September 23, 2003

Ponente: CORONA, J.

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CORONA, J.:

Assailed in the instant petition for review on certiorari under Rule 45 of the Rules of Court is the May 26, 1998 decision[1] of the Court of Appeals modifying the decision of the Regional Trial Court of Malabon, Branch 74:

WHEREFORE, the assailed decision is hereby AFFIRMED with the MODIFICATION that the penalty imposed for each day of delay in surrendering the leased property is reduced from P5,000.00 to P1,000.00 per day of delay.[2]

At the core of the present controversy are two parcels of land measuring a total of 2,147 square meters, with an office building constructed thereon, located at Bo. Potrero, Malabon, Metro Manila and covered by TCT Nos. M-13166 and M-13167.

Petitioner acquired the subject parcels of land in an auction sale on November 9, 1995 for P20,170,000 from the Land Bank of the Philippines (Land Bank).

Private respondent National Onion Growers Cooperative Marketing Association, Inc., an agricultural cooperative, was the occupant of the disputed parcels of land under a subsisting contract of lease with Land Bank. The lease was valid until December 31, 1995.

Upon the expiration of the lease contract, petitioner demanded that private respondent vacate the leased premises and surrender its possession to him. Private respondent refused on the ground that it was, at the time, contesting petitioner's acquisition of the parcels of land in question in an action for annulment of sale, redemption and damages.

On February 23, 1996, petitioner filed an action for ejectment before the Metropolitan Trial Court of Malabon, Branch 55. He asked, inter alia, for the imposition of the contractually stipulated penalty of P5,000 per day of delay in surrendering the possession of the property to him. On September 3, 1996, the trial court decided the case in favor of petitioner:

WHEREFORE, premises considered, the Court considers the allegations of the complaint to be true and duly substantiated except as to the amount of damages and attorney's fees, which are reduced accordingly, a decision is hereby rendered in favor of the plaintiffs and against the defendant, ordering the latter and all persons claiming rights under it:

1)

To vacate the leased premises immediately and turn over the same peacefully to the plaintiffs;

2)

To pay plaintiff Antonio Lo the sum of P5,000.00 for every day of delay from the time defendant is supposed to have vacated the premises;

3)

To pay the sum of P36,000.00 a month from January 1996 until it finally vacates the premises as payment for reasonable compensation for the use and occupancy thereof;

4)

To pay the sum of P20,000.00 by way of reasonable attorney's fees; and

5)

To pay the costs of suit.[3]

On appeal to the Regional Trial Court of Malabon, Branch 74, the MTC decision was affirmed in toto on August 29, 1997.[4] Private respondent's subsequent motion for reconsideration of the RTC decision was denied on November 26, 1997.

From the adverse decision of the trial court, private respondent elevated the case to the Court of Appeals via a petition for review.

On May 26, 1999, the Court of Appeals rendered its assailed decision affirming the decision of the trial court, with the modification that the penalty imposed upon private respondent for the delay in turning over the leased property to petitioner was reduced from P 5,000 to P 1000 per day.

Unsatisfied with the decision of the Court of Appeals, petitioner filed the instant petition for review, raising the sole issue of the alleged lack of authority of the Court of Appeals to reduce the penalty awarded by the trial court, the same having been stipulated by the parties in their Contract of Lease.

The petition has no merit.

Generally, courts are not at liberty to ignore the freedom of the parties to agree on such terms and conditions as they see fit as long as they are not contrary to law, morals, good customs, public order or public policy. Nevertheless, courts may equitably reduce a stipulated penalty in the contract if it is iniquitous or unconscionable, or if the principal obligation has been partly or irregularly complied with.[5]

This power of the courts is explicitly sanctioned by Article 1229 of the Civil Code which provides:

Article 1229. The judge shall equitably reduce the penalty when the principal obligation has been partly or irregularly complied with by the debtor. Even if there has been no performance, the penalty may also be reduced by the courts if it is iniquitous or unconscionable.

The question of whether a penalty is reasonable or iniquitous is addressed to the sound discretion of the court and depends on several factors, including, but not limited to, the following: the type, extent and purpose of the penalty, the nature of the obligation, the mode of breach and its consequences, the supervening realities, the standing and relationship of the parties.[6]

In this case, the stipulated penalty was reduced by the appellate court for being unconscionable and iniquitous. As provided in the Contract of Lease, private respondent was obligated to pay a monthly rent of P30,000. On the other hand, the stipulated penalty was pegged at P5,000 for each day of delay or P150,000 per month, an amount five times the monthly rent. This penalty was not only exorbitant but also unconscionable, taking into account that private respondent's delay in surrendering the leased premises was because of a well-founded belief that its right of preemption to purchase the subject premises had been violated. Considering further that private respondent was an agricultural cooperative, collectively owned by farmers with limited resources, ordering it to pay a penalty of P150,000 per month on top of the monthly rent of P30,000 would seriously deplete its income and drive it to bankruptcy. In *Rizal Commercial Banking Corp. vs. Court of Appeals*,^[7] the Court tempered the penalty charges after taking into account the debtor's pitiful financial condition.

Accordingly, we rule that the Court of Appeals did not commit any reversible error in the exercise of its discretion when it reduced the award of penalty damages from P5,000 to P1,000 for each day of delay.

WHEREFORE, petition is hereby DENIED. The decision of the Court of Appeals reducing the amount of penalty damages against private respondent is AFFIRMED.

SO ORDERED.

Puno, (Chairman), Panganiban, Sandoval-Gutierrez, and Carpio-Morales, JJ., concur.

[1] Penned by Associate Justice Portia Aliño-Hormachuelos and concurred in by Associate Justices Buenaventura J. Guerrero and Eloy R. Bello, Jr. of the Eleventh Division.

[2] Rollo, p. 54.

[3] Rollo, pp. 35-36. Decision penned by Judge Francisco S. Lindo.

[4] Penned by Judge Bienvenido L. Reyes.

[5] *Tolomeo Ligutan and Leonidas De La Llana vs. Court of Appeals and Security Bank and Trust Co.*, G.R. No. 138677, February 12, 2002.

[6] *Ligutan vs. Court of Appeals*, G.R. No. 138677, February 12, 2002.

[7] 289 SCRA 292 [1998].

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