

RADIOWEALTH FINANCE CO., INC., ET AL., PETITIONERS, VS. INTERNATIONAL CORPORATE BANK AND COURT OF APPEALS, RESPONDENTS.

G.R. Nos. 77042-43. February 28, 1990

Ponente: BIDIN, J.

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BIDIN, J.:

This is a petition for review on certiorari of the joint decision[*] promulgated on December 22, 1986, by the respondent Court of Appeals in CA-G.R. No. 01063 entitled “International Corporate Bank, plaintiff-appellee vs. Radiowealth, Inc. and Domingo M. Guevara, defendants-appellants” and in CA-G.R. No. 01064 entitled “International Corporate Bank, plaintiff-appellee vs. Radiowealth Finance Company, Inc., Radiowealth, Inc. and D.M.G., Inc., defendants-appellants,” the dispositive portion of which reads:

"WHEREFORE, finding no error in the Order appealed from, the same is hereby affirmed in toto, with costs against the appellants." (Rollo, p. 101).

The basic facts appear undisputed and they are as follows:

Sometime in 1978, petitioners Radiowealth, Inc. (RWI) and Radiowealth Finance Company, Inc. (RFC) applied for and obtained credit facilities from private respondent International Corporate Bank (Interbank). Petitioners Domingo Guevara (Guevara, for short) and D.M.G., Inc., acted as sureties to the obligations contracted by RWI and RFC. The obligations of petitioners were accordingly covered and evidenced by promissory notes, trust receipts and agreements.

A common stipulation in the covering promissory notes, trust receipts, and continuing surety agreements between the borrowing petitioners and the lending private respondent provided, to wit:

"In the event of the bringing of any action or suit by you or any default of the undersigned hereunder I/We shall on demand pay you reasonable attorney's fees and other fees and costs of collection, which shall in no cases be less than ten percentum (10%) of the value of the property and the amount involved by the action or suit." (Rollo, p. 211).

From 1978 to 1980, petitioners were not able to comply with their obligations on time with Interbank due to subsequent severe economic and financial reverses. Petitioners, thus asked Interbank for a restructuring of their outstanding loans, but the parties were not able to arrive at a mutually acceptable proposition.

On December 28, 1979, Interbank, constrained to seek judicial remedy, through its counsel Norberto J. Quisumbing and Associates, lodged before the then Court of First Instance of Manila its first complaint, docketed thereat as Civil Case No. 128744, for collection of sum of money with an application for a writ of preliminary attachment against, RWI and Guevara covering the principal sum of P1,585,933.61 plus penalties, service charges, interests, attorney's fees, costs and exemplary damages (Rollo, pp. 31-38).

This was followed by another complaint filed on January 9, 1980 before the same trial court against RFC, RWI and D.M.G., Inc., also with an application for a writ of preliminary attachment, docketed as Civil Case No. 128897, for the collection of the principal sum of P2,113,444.58, plus interests, penalties, service charges, attorney's fees, costs and exemplary damages (Rollo, pp. 39-47).

Petitioners, however, opted to amicably settle their obligations promptly. They, therefore, did not file any answer nor any responsive pleading to the complaints, and instead entered into a compromise agreement with Interbank shortly about four (4) months later. Said compromise agreement between the parties was embodied in two Motions for Judgment Based on Compromise dated March 21, 1980 (Rollo, pp. 48-55) corresponding to the separate claims in the said two complaints which were accordingly submitted to the court *quo* for approval. These motions did not however, cover the payment by the petitioners of Interbank's claims for attorney's fees, costs of collection and expenses of litigation which were left open by the parties for further negotiations.

In its decision in Civil Case No. 128744, dated March 28, 1980, the trial court approved the parties' corresponding compromise agreement thereto, with the reservation that "(T)his decision does not terminate this case because matters respecting payment of attorney's fees, costs and collection expenses are still to be threshed out between the parties." (Rollo, pp. 58-59).

Similarly, the trial court, in its decision in Civil Case No. 128897 of even date, also approved the parties' corresponding compromise agreement thereto with the identical reservation as aforequoted (Rollo, pp. 60-61).

Thereafter, further proceedings were conducted by the trial court particularly on the issue of the alleged unreasonableness and unconscionableness of the attorney's fees. It appears from the records of the cases, however, that Atty. Norberto J. Quisumbing, counsel for Interbank, was able to adduce his evidence in support for the attorney's fees due to his said client, while Attys. Reyes and Guevara, counsel for petitioners in the trial court, were not given their request for further hearing against the claimed attorney's fees despite some supervening events as alleged in their motion for reconsideration dated January 29, 1981 (Rollo, pp. 82-84) which was denied in the Order of January 30, 1981 (Rollo, p. 85).

At any rate, the trial court, in its Order dated January 2, 1981, had already reduced Interbank's claim for attorney's fees, from the stipulated 10% to 8%, pertinent portions thereof are hereunder quoted, thus:

"(T)he 'ten per cent' in the foregoing quoted provisions includes attorney's fees, other fees and cost of collection. In paragraph No. 2 of the compromise agreement in Civil Case No. 128744 under which the defendants therein acknowledge their indebtedness of P1,585,933.61 as of December 28, 1979, it is provided that in paying the same there shall be added to it 16% per annum as interest, 2% per annum as service charge, 2% per month or any fraction thereof as penalty from January 31, 1980. A similar provision is contained in paragraph No. 2 of the compromise agreement filed in Civil Case No. 128897 under which the defendants therein admitted their indebtedness of P2,113,444.58, payment of which was to commence on or before January 31, 1980. The service charge of 2% should be deducted from the 10% already mentioned above, to give the rate of attorney's fees which is 8% in accordance with the provisions already aforequoted. Eight percent (8%) of P1,585,833.61, or P126,824.68 is the attorney's fees in Civil Case No. 128897 — sums which x x x are not excessive and perhaps acceptable to plaintiff which was willing to have its claim reduced to P73,987.57 had defendants acceded to its offer to compromise attorney's fees and expense of litigation.

"PREMISES CONSIDERED, the Court hereby orders the defendants in Civil Case No. 128744 to pay the plaintiff jointly and severally P126,824.68 and the defendants in Civil Case No. 128897 to pay the plaintiff, also jointly and severally, P169,075.56 with interest at 12% per annum from this date until the same is paid.

SO ORDERED." (Rollo, pp. 80-81).

Not satisfied with said trial court's order, petitioners appealed the same before the respondent appellate court raising therewith the following assigned errors:

“A.

The lower court erred in not giving the defendants the opportunity to be heard in a hearing set for the purpose of determining the amount of attorney's fees;

B. The lower court erred in insisting that the amount of attorney's fees should be governed by the contract signed by the parties;

C. The lower court erred in not substantially reducing the amount of attorney's fees.” (Rollo, pp. 242-243).”

The respondent appellate court, however, affirmed in toto the assailed order of the trial court.

Hence, the instant petition.

Petitioners raise the following issues before this Court:

"I. Whether or not the reasonableness of attorney's fees in the case at bar is a question of law;

II.

Whether or not the award of attorney's fees in the case at bar is reasonable;

III.

Whether or not a contracted stipulation regarding attorney's fees maybe disregarded by this Honorable Court;

IV.

Whether or not attorney's fees require proof.” (Rollo, p. 243).

Deducible from the contentions of the parties, is the sole issue of whether or not the amount equivalent to 8% of the recovery or sums of money due from the two civil complaints adjudged as attorney's fees by the trial court and affirmed by the respondent appellate court, is fair and reasonable under the peculiar facts and circumstances herein. Corollarily, whether or not the court has discretion to modify the attorney's fees previously agreed upon by the parties under a valid contractual stipulation.

Petitioners assert that the sums of P126,824.68 in Civil Case No. 128744 and P169,075.56 in Civil Case No. 128897 or 8% of the amount involved in the respective suits, adjudged as attorney's fees due to Norberto J. Quisumbing and Associates, counsel of record of the judgment creditor the herein private respondent Interbank, per the order of the trial court, is unreasonable, exorbitant and unconscionable under the premises considering the following undisputed facts: that said cases were immediately settled with the execution of a compromise agreement after the complaints with prayer for preliminary attachment had been filed by the private respondent against the petitioners in the lower court, and no answer was filed by petitioners; that pursuant to the Compromise Agreement between the parties, petitioner Radiowealth, Inc. has fully paid to Inter-bank in Civil Case No. 128744

the total amount of P2,867,802.64, while petitioner Radiowealth Finance Co., Inc. (RFC) has fully paid to Interbank in Civil Case No. 128897 the total amount of P3,018,192.52; that of the amounts paid to Interbank, petitioner Radiowealth, Inc., has fully paid the total sum of P118,075.84 as service charge and penalties, while petitioner Radiowealth Finance Co., Inc., had paid the total amount of P135,526.40 as penalties and service charges, all in addition to the interests paid by petition-ers to Interbank.

Interbank, on the other hand, avers that petitioners have omitted to state certain facts and circumstances, as follows: that the collection suits filed against petitioners involve charges of violation of the trust receipts law for disposing of the goods they had received from Interbank on trust receipts and failing to surrender the proceeds thereof; that Atty. Quisumbing had successfully obtained attachment against their properties; that Atty. Quisumbing succeeded in forcing petitioners to agree in the joint motions for judgment based on compromise to such stipulation which made them fear a default in the payment of the amortizations or installments of the compromise amount; that the principal amount collected from petitioners totalled P3,699,378.19, not counting the interests; that petitioners' obligations to Interbank were not evidenced by one but many letters of credit and trust receipts; that the records were destroyed by fire and had to be reconstituted; that Interbank had already given petitioners very substantial discounts on penalty charges; and, despite clear contractual stipulations, the lower court had already reduced the 10% stipulated attorney's fees and expenses of litigation to 8%.

As a basic premise, the contention of petitioners that this Court may alter, modify or change even an admit-tedly valid stipulation between the parties regarding attorney's fees is conceded. The high standards of the legal profession as prescribed by law and the Canons of Professional Ethics regulate if not limit the lawyer's freedom in fixing his professional fees. The moment he takes his oath, ready to undertake his duties first, as a practitioner in the exercise of his profession, and second, as an officer of the court in the administration of justice, the lawyer submits himself to the authority of the court. It becomes axiomatic therefore, that power to determine the reasonableness or the unconscionable character of attorney's fees stipulated by the parties is a matter falling within the regulatory prerogative of the courts (*Panay Electric Co., Inc. vs. Court of Appeals*, 119 SCRA 456 [1982]; *De Santos vs. City of Manila*, 45 SCRA 409 [1972]; *Rolando vs. Luz*, 34 SCRA 337 [1970]; *Cruz vs. Court of Industrial Relations*, 8 SCRA 826 [1963]). And this Court has consistently ruled that even with the presence of an agreement between the parties, the court may nevertheless reduce attorney's fees though fixed in the contract when the amount thereof appears to be unconscionable or unreasonable (*Borcena vs. Intermediate Appellate Court*, 147 SCRA 111 [1987]; *Mutual Paper Inc. vs. Eastern Scott Paper Co.*, 110 SCRA 481 [1981]; *Gorospe vs. Gochango*, 106 Phil. 425 [1959]; *Turner vs. Casabar*, 65 Phil. 490 [1938]; *F.M. Yap Tico & Co. vs. Alejano*, 53 Phil. 986 [1929]). For the law recognizes the validity of stipulations included in documents such as negotiable instruments and mortgages with respect to attorney's fees in the form of penalty provided that they are not unreasonable or unconscionable (*Philippine Engineering Co. vs. Green*, 48 Phil. 466).

There is no mistake, however, that the reasonableness of attorney's fees, though seemingly a matter of fact which takes into account the peculiar circumstances of the case, is a question of law where the facts are not disputed at all. For a question of law does not call for an examination of the probative value of the presented by the parties (*Air France vs. Carrascoso*, 18 SCRA 155 [1966]), and where the issue is the construction or interpretation to be placed by the appellate court upon documentary evidence, or when a case is submitted upon an agreed statement of facts or where all the facts are stated in the judgment, the question is one of law where the issue is the correct-ness of the conclusion drawn therefrom (*Cunanan vs. Lazatin*, 74 Phil. 719 [1944]; *Ng Young vs. Villa*, 93 Phil. 21 [1953]). In the case at bar, the issues do not call for an examination of the probative value of the evidence because the ultimate facts are admitted by the parties and all the basic facts are stated in the judgment.

Nevertheless, a careful review of the records shows that the modified attorney's fees fixed by the trial court and

affirmed by the respondent appellate court, appears reasonable and fair under the admitted circumstances of the case. As aptly reasoned out by the said court:

"We find nothing wrong in the foregoing disquisition of the lower court.

"It is to be remembered that attorney's fees provided in contracts as recoverable against the other party and damages are not, strictly speaking, the attorney's fees recoverable as between attorneys and client spoken of and regulated by the Rules of Court. Rather, the attorney's fees here are in the nature of liquidated damages and the stipulations therefor is aptly called a penal clause. So long as such stipulation does not contravene law, morals, or public order, it is strictly binding upon the defendant (*Polytrade Corporation vs. Blanco*, 30 SCRA 137 [1969]). However:

'Liquidated damages, whether intended as an Indemnity or a penalty, shall be equitably reduced if they are iniquitous or unconscionable. For this reason, we do not really have to strictly view the reasonableness of the attorney's fees in the light of such facts as the amount and character of the service rendered, the nature and importance of the litigation; and the professional character and the social standing of the attorney. We do concede, however that these factors may be an aid in the determination of the inequity or unconscionableness of attorney's fees as liquidated damages.' (*Supra*)

"May the attorney's fees granted by the court be tagged as iniquitous or unconscionable? We give the answer in the negative. The high standing of plaintiff's counsel has not been challenged.

"In the motion for judgment based on compromise agreement, defendants acknowledged and admitted their default or failure to pay their joint and several obligations or indebtedness arising from the credit facilities which plain-tiff extended to defendants and availed of by the latter, the punctual payment of which having been guaranteed and warranted by the other defendants. Having admitted such default in the payment of their obligations, the filing of the action in court and, consequently, the legal services of counsel became imperative and thereby, set into operation the contract clause on the payment of attorney's fees.

"The complaints are not simple actions for collection. They are accompanied with a prayer for the issuance of a writ of preliminary attachment, and charge defendants with violation of the trust receipts law and they involve several letters of credit and trust receipts. The fact that the compromise agreements were entered into after the complaints were filed against appellants indubitably proves that the legal action taken by counsel for the plaintiff against the defendants contributed in no measure to the early settlement of defendants' obligation.

"Considering further that, apart from the reduction and waiver of penalty charges due to the plaintiff to the extent of P79,191.72, the service charge of 2% was further deducted by the lower court thereby, reducing the attorney's fees to 8% the court is of the considered opinion and so holds that given the prestige of plaintiff's counsel, the nature of the action and quality of legal services rendered, the award of attorney's fees in a sum equivalent to 8% of the judgment which is below the stipulated fees of 10% could hardly be suggested as iniquitous and unconscionable. On the contrary, it easily falls within the rule of conscionable and reasonable." (*Rollo*, pp. 100-101).

The foregoing disquisition merits our assent.

Moreover, even if the so-called supervening event which ought to have been heard in the trial court as alleged in petitioners' motion for reconsideration dated January 29, 1981, i.e., "that supervening events happened from the time the trust receipt agreements were signed in which the defendants agreed to pay 10% of the amount due as attorney's fees and costs of collection up to the actual filing of the complaint and these events were the payments of interest in the amount of P285,341.27, as interest, P41,507.37 as service charges and P76,568.47 as penalty by Radiowealth, Inc.; that Radiowealth Finance Co., Inc. has paid the amount of P231,940.12 as interest, P38,721.83

as service charges and P96,804.57 as penalty” (Rollo, pp. 137-138), were to be considered, they would still be insufficient to justify a further substantial reduction in the adjudged attorney's fees. At any rate, it should be noted that petitioners have not even prayed for a specific reduction as to amount or percentage of the attorney's fees except for their sweeping allegations of unreasonableness, exorbitance and unconscionableness.

WHEREFORE, the assailed decision of the respondent appellate court is Affirmed, with costs de oficio.

SO ORDERED.

Fernan, C.J., Gutierrez, Jr., Feliciano, and Cortes, JJ., concur.

[*] Special Sixth Division; penned by Herrera, J., and concurred in by Melo and Pronove, Jr., JJ.

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