

## THIRD DIVISION

[ G.R. NO. 149040, July 04, 2007 ]

**EDGAR LEDONIO, PETITIONER, VS. CAPITOL DEVELOPMENT CORPORATION, RESPONDENT.**

### D E C I S I O N

**CHICO-NAZARIO, J.:**

Before this Court is a Petition for Review on *Certiorari*<sup>[1]</sup> under Rule 45 of the Revised Rules of Court praying that (1) the Decision,<sup>[2]</sup> dated 20 March 2001, of the Court of Appeals in CA-G.R. CV No. 43604, affirming *in toto* the Decision,<sup>[3]</sup> dated 6 August 1993, of the Quezon City Regional Trial Court (RTC), Branch 91, in Civil Case No. Q-90-5247, be set aside; and (2) the Complaint<sup>[4]</sup> in Civil Case No. Q-90-5247 be dismissed.

Herein respondent Capitol Development Corporation instituted Civil Case No. Q-90-5247 by filing a Complaint for the collection of a sum of money against herein petitioner Edgar Ledonio.

In its Complaint, respondent alleged that petitioner obtained from a Ms. Patrocinio S. Picache two loans, with the aggregate principal amount of P60,000.00, and covered by promissory notes duly signed by petitioner. In the first promissory note,<sup>[5]</sup> dated 9 November 1988, petitioner promised to pay to the order of Ms. Picache the principal amount of P30,000.00, in monthly installments of P3,000.00, with the first monthly installment due on 9 January 1989. In the second promissory note,<sup>[6]</sup> dated 10 November 1988, petitioner again promised to pay to the order of Ms. Picache the principal amount of P30,000.00, with 36% interest per annum, on 1 December 1988. In case of default in payment, both promissory notes provide that (a) petitioner shall be liable for a penalty equivalent to 20% of the total outstanding balance; (b) unpaid interest shall be compounded or added to the balance of the principal amount and shall bear the same rate of interest as the latter; and (c) in case the creditor, Ms. Picache, shall engage the services of counsel to enforce her rights and powers under the promissory notes, petitioner shall pay as attorney's fees and liquidated damages the sum equivalent to 20% of the total amount sought to be recovered, but in no case shall the said sum be less than P10,000.00, exclusive of costs of suit.

On 1 April 1989, Ms. Picache executed an Assignment of Credit<sup>[7]</sup> in favor of respondent, which reads -

KNOW ALL MEN BY THESE PRESENTS:

That I, PAT S. PICACHE of legal age and with postal address at 373 Quezon Avenue, Quezon City for and in consideration of SIXTY

THOUSAND PESOS (P60,000.00) Philippine Currency, to me paid by [herein respondent] CAPITOL DEVELOPMENT CORPORATION, a corporation organized and existing under the laws of the Republic of the Philippines with principal office at 373 Quezon Avenue, Quezon City receipt whereof is hereby acknowledged have sold, transferred, assigned and conveyed and (sic) by me these presents do hereby sell, assign, transfer and convey unto the said [respondent] CAPITOL DEVELOPMENT CORPORATION, a certain debt due me from [herein petitioner] EDGAR A. LEDONIO in the principal sum of SIXTY THOUSAND PESOS (P60,000.00) Philippine Currency, under two (2) Promissory Notes dated November 9, 1988 and November 10, 1988, respectively, photocopies of which are attached to as annexes A & B to form integral parts hereof with full power to sue for, collect and discharge, or sell and assign the same.

That I hereby declare that the principal sum of SIXTY THOUSAND PESOS (P60,000.00) with interest thereon at THIRTY SIX (36%) PER CENT per annum is justly due and owing to me as aforesaid.

IN WITNESS WHEREOF, I have hereunto set my hand this 1<sup>st</sup> day of April, 1989 at Quezon City.

(SGD) PAT S. PICACHE

The foregoing document was signed by two witnesses and duly acknowledged by Ms. Picache before a Notary Public also on 1 April 1989.

Since petitioner did not pay any of the loans covered by the promissory notes when they became due, respondent -- through its Vice President Nina P. King and its counsel King, Capuchino, Banico & Associates -- sent petitioner several demand letters.<sup>[8]</sup> Despite receiving the said demand letters, petitioner still failed and refused to settle his indebtedness, thus, prompting respondent to file the Complaint with the RTC, docketed as Civil Case No. Q-90-5247.

In his Answer filed with the RTC, petitioner sought the dismissal of the Complaint averring that respondent had no cause of action against him. He denied obtaining any loan from Ms. Picache and questioned the genuineness and due execution of the promissory notes, for they were the result of intimidation and fraud; hence, void. He asserted that there had been no transaction or privity of contract between him, on one hand, and Ms. Picache and respondent, on the other. The assignment by Ms. Picache of the promissory notes to respondent was a mere ploy and simulation to effect the unjust enforcement of the invalid promissory notes and to insulate Ms. Picache from any direct counterclaims, and he never consented or agreed to the said assignment.

Petitioner then presented his own narration of events leading to the filing of Civil Case No. Q-90-5247. According to him, on 24 February 1988, he entered into a Contract of Lease<sup>[9]</sup> of real property located in Quezon City with Mission Realty & Management Corporation (MRMC), of which Ms. Picache is an incorporator and member of the Board of Directors.<sup>[10]</sup> Petitioner relocated the plant and machines used in his garments business to the leased property. After a month or two, a foreign investor was interested in doing business with him and sent a representative

to conduct an ocular inspection of petitioner's plant at the leased property. During the inspection, a group of Meralco employees entered the leased property to cut off the electric power connections of the plant. The event gave an unfavorable impression to the foreign investor who desisted from further transacting with petitioner. Upon verification with Meralco, petitioner discovered that there were unpaid electric bills on the leased property amounting to hundreds of thousands of pesos. These electric bills were supposedly due to the surreptitious electrical connections to the leased property. Petitioner claimed that he was never informed or advised by MRMC of the existence of said unpaid electric bills. It took Meralco considerable time to restore electric power to the leased property and only after petitioner pleaded that he was not responsible for the illegal electrical connections and/or the unpaid electric bills, for he was only a recent lessee of the leased property. Because of the work stoppage and loss of business opportunities resulting from the foregoing incident, petitioner purportedly suffered damages amounting to United States \$60,000.00, for which petitioner verbally attempted to recover compensation from MRMC.

Having failed to obtain compensation from MRMC, petitioner decided to vacate and pull out his machines from the leased property but he can only do so, unhampered and uninterrupted by MRMC security personnel, if he signed, as he did, blank promissory note forms. Petitioner alleged that when he signed the promissory note forms, the allotted spaces for the principal amount of the loans, interest rates, and names of the promisee/s were in blank; and that Ms. Picache took advantage of petitioner's signatures on the blank promissory note forms by filling up the blanks.

To raise even more suspicions of fraud and spuriousness of the promissory notes and their subsequent assignment to respondent, petitioner called attention to the fact that Ms. Picache is an incorporator and member of the Board of Directors of both MRMC and respondent.<sup>[11]</sup>

After the pre-trial conference and the trial proper, the RTC rendered a Decision<sup>[12]</sup> on 6 August 1993, ruling in favor of respondent. The RTC gave more credence to respondent's version of the facts, finding that -

[Herein petitioner]'s disclaimer of the promissory note[s] does not inspire belief. He is a holder of a degree in Bachelor of Science in Chemical Engineering and has been a manufacturer of garments since 1979. As a matter of fact, [petitioner]'s testimony that he was made to sign blank sheets of paper is contrary to his admission in paragraphs 12 and 13 of his Answer that as a condition to his removal of his machines [from] the leased premises, he was made to sign blank promissory note forms with respect to the amount, interest and promisee. It thus appears incredulous that a businessman like [petitioner] would simply sign blank sheets of paper or blank promissory notes just [to] be able to vacate the leased premises.

Moreover, the credibility of [petitioner]'s testimony leaves much to be desired. He contradicted his earlier testimony that he only met Patrocinio Picache once, which took place in the office of Mission Realty and Management Corporation, by stating that he saw Patrocinio Picache a second time when she went to his house. Likewise, his claim that the electric power in the leased premises was cut off only two months after

he occupied the same is belied by his own evidence. The contract of lease submitted by [petitioner] is dated February 24, 1988 and took effect on March 1, 1988. His letter to Mission Realty and Management Corporation dated September 21, 1988, complained of the electric power disconnection that took place on September 6, 1988, that is, six (6) months after he had occupied the leased premises, and did not even give a hint of his intention to vacate the premises because of said incident. It appears that [petitioner] was already advised to pay his rental arrearages in a letter dated August 9, 1988 (Exh. "2") and was notified of the termination of the lease contract in a letter dated September 19, 1988 (Exh. "4"). However, in a letter dated September 26, 1988, [petitioner] requested for time to look for a place to transfer.

The RTC also sustained the validity and enforceability of the Assignment of Credit executed by Ms. Picache in favor of respondent, even in the absence of petitioner's consent to the said assignment, based on the following reasoning -

The promissory notes (Exhs. "A" and "B") were assigned by Ms. Patrocinio Picache to [herein respondent] by virtue of a notarized Assignment of Credit dated April 1, 1989 for a consideration of P60,000.00 (Exh. "C"). The fact that the assignment of credit does not bear the conformity of [herein petitioner] is of no moment. In *C & C Commercial Corporation vs. Philippine National Bank*, 175 SCRA 1, 11, the Supreme Court held thus:

"x x x Article 1624 of the Civil Code provides that 'an assignment of credits and other incorporeal rights shall be perfected in accordance with the provisions of Article 1475' which in turn states that 'the contract of sale is perfected at the moment there is a meeting of the minds upon the thing which is the object of the contract and upon the price.' The meeting of the minds contemplated here is that between the assignor of the credit and his assignee, there being no necessity for the consent of the debtor, contrary to petitioner's claim. It is sufficient that the assignment be brought to his knowledge in order to be binding upon him. This may be inferred from Article 1626 of the Civil Code which declares that 'the debtor who, before having knowledge of the assignment, pays his creditor shall be released from the obligation.'"

[Petitioner] does not deny having been notified of the assignment of credit by Patrocinio Picache to the [respondent]. Thus, [respondent] sent several demand letters to the [petitioner] in connection with the loan[s] (Exhs. "D", "E", "F" and "G"). [Petitioner] acknowledged receipt of [respondent]'s letter of demand dated June 13, 1989 (Exh. "F") and assured [respondent] that he would settle his account, as per their telephone conversation (Exhs. "H" and "9"). Such communications between [respondent] and [petitioner] show that the latter had been duly notified of the said assignment of credit. x x x.

Given its aforequoted findings, the RTC proceeded to a determination of petitioner's liabilities to respondent, taking into account the provisions of the promissory notes,

thus -

x x x Consequently, [herein respondent] is entitled to recover from [herein petitioner] the principal amount of P30,000.00 for the promissory note dated November 9, 1988. As said note did not provide for any interest, [respondent] may only recover interest at the legal rate of 12% per annum from April 18, 1990, the date of the filing of the complaint. With respect to the promissory note dated November 10, 1988, the same provided for interest at 36% per annum and that interest not paid when due shall be added to and shall become part of the principal and shall bear the same rate of interest as the principal. Likewise, both promissory notes provided for a penalty of 20% of the total outstanding balance thereon and attorney's fees equivalent to 20% of the sum sought to be recovered in case of litigation.

In *Garcia vs. Court of Appeals*, 167 SCRA 815, it was held that penalty interests are in the nature of liquidated damages and may be equitably reduced by the courts if they are iniquitous or unconscionable, pursuant to Articles 1229 and 2227 of the Civil Code. Considering that the promissory note dated November 10, 1988 already provided for interest at 36% per annum on the principal obligation, as well as for the capitalization of the unpaid interest, the penalty charge of 20% of the total outstanding balance of the obligation thus appears to be excessive and unconscionable. The interest charges are enough punishment for [petitioner]'s failure to comply with his obligation under the promissory note dated November 10, 1988.

With respect to the attorney's fees, the court is likewise empowered to reduce the same if they are unreasonable or unconscionable, notwithstanding the express contract therefor. (*Insular Bank of Asia and America vs. Spouses Salazar*, 159 SCRA 133, 139). Thus, an award of P10,000.00 as and for attorney's fees appears to be enough.

Consequently, the *fallo* of the RTC Decision reads -

WHEREFORE, in view of the foregoing, judgment is hereby rendered in favor of the [herein respondent] and against [herein petitioner] ordering the latter as follows:

1. To pay [respondent], on the promissory note dated November 9, 1988, the amount of P30,000.00 with interest thereon at the legal rate of 12% per annum from April 18, 1990 until fully paid and a penalty of 20% on the total amount;
2. To pay [respondent], on the promissory note dated November 10, 1988, the amount of P30,000.00 with interest thereon at 36% per annum compounded at the same rate until fully paid;
3. To pay [respondent] the amount of P10,000.00, as and for attorney's fees; and
4. To pay the costs of the suit.<sup>[13]</sup>