

****Title:****

Spouses Sergio D. Domasian and Nenita F. Domasian vs. Manuel T. Demdam

****Facts:****

On October 30, 1995, Spouses Sergio and Nenita Domasian (Petitioners) borrowed P75,000 from Manuel T. Demdam (Respondent) at an 8% monthly interest rate, agreeing to repay by June 30, 1996. Upon failure to settle the debt and accrued interests despite demands, the Respondent filed a complaint for collection in the RTC of Pasay City on August 1, 2001 (Civil Case No. 01-1227), initially including Gil D. Doniña as a defendant – who was later dropped. Summons were unavailingly served at the Petitioners' old address. Unaware of the summons, Sergio learned of the case inadvertently and sought to settle; however, they were declared in default on January 23, 2002, and judgment was rendered against them on January 14, 2003.

Uninformed of these developments until 2006, the Petitioners moved for relief from judgment, claiming improper summons service and challenging the RTC's jurisdiction over the principal amount. The RTC set aside its previous judgment on September 30, 2008, citing jurisdictional inappropriateness as the claim was within the MeTC's sphere. The Respondent's appeal to the CA contested this decision, leading to the reinstatement of the RTC's default judgment favoring the Respondent. The Petitioners' subsequent Supreme Court petition questioned the CA's authority and decisions regarding jurisdiction and interest on the loan.

****Issues:****

1. Whether the CA erred in processing the Respondent's appeal which comprised purely questions of law.
2. The correctness of CA's jurisdictional ruling, specifically if interest should factor into determining jurisdictional limits.
3. The appropriateness of the 8% monthly interest rate applied to the loan.

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

The Supreme Court found the CA's action in accepting the Respondent's appeal, based solely on legal questions, contentious but ultimately upheld its determinations concerning jurisdiction and monetary claims. The Court clarified that the inclusion of interest for jurisdictional assessment pertains only to compensatory interest, not the intrinsic monetary interest tied to the loan's principal, which in this case was directly implicated and thus rightful in jurisdictional computation. Moreover, the Court deemed the 8% monthly interest

rate unconscionably high, reducing it to the legal rate of 12% per annum from the time of default until the ruling's finality, with further adjustments thereafter until full payment.

****Doctrine:****

The case reiterated the distinctions between monetary and compensatory interest regarding jurisdictional considerations and reinforced the Court's prerogative to adjust exorbitant interest rates on loans. Matters involving the calculation of jurisdictional amounts must include the principal debt and the agreed monetary interest, but not additional charges like compensatory interest, damages, or attorney's fees.

****Class Notes:****

- ****Jurisdictional Amount****: Includes the total claim amount, combining principal and intrinsic (monetary) interest, exclusive of compensatory interest and ancillary fees.
- ****Interest Rate Adjustment****: In loan agreements with unconscionable interest rates, the Court can intervene, adjusting the rate to a legal threshold deemed reasonable at the time of the loan's origination.
- ****Appeal on Purely Legal Questions****: Appeals based solely on legal questions should proceed to the Supreme Court via petition for review on certiorari, not through notice of appeal to the CA.

****Historical Background:****

This case underscores the Philippine judiciary's evolving stance on consumer protection, particularly in loan agreements with oppressive interest rates. The judiciary employs doctrines ensuring equitable relief against unconscionable terms, highlighting a commitment to balance contractual freedom with safeguarding borrowers' rights. It also exemplifies procedural intricacies, especially in appeals handling and jurisdictional disputes, showcasing the adaptability of the legal system in addressing the complexities of modern financial transactions.