

## MORAL DAMAGES IN BREACH OF CONTRACT CASES

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Spouses Pepe and Pilar obtained a car loan from U Bank. They subsequently defaulted in the payment of their amortizations. U Bank instituted a suit for sum of money with a prayer for replevin with the MTC of Pasay City. The bank then detained the subject car in its premises.

Pepe then met with U Bank's representatives to discuss an amicable settlement. U Bank agreed to reduce the Spouses Pepe and Pilar's outstanding indebtedness from P184,000 to only P150,000.

The following day, Pepe returned to U Bank with a manager's check for P150,000. This time the bank further insisted that Pepe also sign a joint motion to dismiss, the same being a standard operating procedure to effect a compromise and to preclude future filing of claims, counterclaims or suits for damages. When Pepe refused to sign the joint Motion to Dismiss, U Bank refused to release the car to him. Meanwhile U Bank held on to the manager's check, but did not deposit same. Pepe promptly sued for damages.

The MTC dismissed Pepe's complaint. On appeal to the RTC, the decision of the MTC was reversed. The RTC held that there was a meeting of the minds between the parties as to the reduction of the amount of indebtedness and the release of the car but said agreement did not include the signing of a joint motion to dismiss as a condition *sine qua non* for the effectivity of the compromise.

On appeal to the Court of Appeals, the appellate court affirmed the RTC decision in toto.

Via a petition for review to the Supreme Court, U Bank assigned three errors:

1. The Court of Appeals erred in holding that there was no agreement with respect to the execution of a Joint Motion to Dismiss as a condition for the compromise agreement.
2. The Court of Appeals erred in awarding moral and exemplary damages.
3. The Court of Appeals erred in not making any provision for the issuance of a new cashier's check in lieu of the original cashier's check which had become stale.

The Supreme Court sustained the findings of the RTC and the Court of Appeals. U Bank had the burden of evidence to prove its claim that the oral compromise entered into by the parties included the stipulation that the parties included the stipulation that the parties would jointly file a motion to dismiss. But it failed to do so.

However, the Supreme Court nevertheless reversed the awards for moral and exemplary damages holding that the act of U Bank in requiring the execution of a Joint Motion to Dismiss did not constitute fraud or bad faith. It held that in cases of breach of contract, moral damages may only be awarded when the breach was attending by fraud or bad faith. In fact, the act of U Bank in reducing the debt of Spouses Pepe and Pilar to P150,000 from P184,000 was a sign of good faith. The Supreme Court also rejected the award for exemplary damages ruling that the conduct of U Bank cannot be characterized a "wanton, fraudulent, reckless, oppressive or malevolent."

In the spirit of fair play, the Spouses Pepe and Pilar were ordered to pay U Bank P150, 000 upon surrender or cancellation of the manager's check in U Bank's possession and U Bank was likewise directed to return the subject motor vehicle in good working condition.

Pepe bought a Nissan Sentra 1989 model. By the time the Supreme Court rendered its Decision in February, 2001 – a full twelve (12) years had elapsed. It would have interesting to find out how the bank could have complied with its counterpart undertaking to return the car to Pepe in good working condition.

(The International Corporate Bank vs. Spouses Francis Gueco and Ma. Luz Gueco, G.R. 14111968, February 12, 2001)