

Title:

Estate of K. H. Hemady vs. Luzon Surety Co., Inc.

Facts:

Luzon Surety Co., Inc. (Luzon Surety) filed a claim against the Estate of K. H. Hemady for allegedly due sums under twenty indemnity agreements in which the deceased, Hemady, served as a surety. These agreements required Hemady to reimburse the surety company for any losses, costs, or expenses incurred as a result of having become surety upon the bonds. The surety company sought to recover unpaid premiums and documentary stamp costs associated with these bonds, with interest.

Upon the Luzon Surety's filing of its claim, the administratrix of Hemady's estate moved to dismiss the claim on the basis that the estate was not liable for obligations arising after Hemady's death and that the obligation was personal to Hemady, whose qualities as a guarantor were integral to the contract.

The Court of First Instance of Rizal dismissed the claim and the surety company appealed to the Supreme Court of the Philippines, arguing that Hemady's obligations as a guarantor extended beyond his death and that such obligations were transmissible to his estate.

Issues:

1. Whether the death of a guarantor extinguishes his obligation and precludes the enforcement of the same against his estate.
2. Whether the surety company's claim against the estate constituted a contingent claim that was proper for allowance against the estate.

Court's Decision:

The Supreme Court reversed the lower court's judgment, holding that the liability of a solidary guarantor, as Hemady was, does not extinguish upon death. The Court reasoned that contractual rights and obligations are generally transmissible to the successors, heirs, and assigns unless expressly stipulated otherwise, or is prohibited by the nature of the obligation or by law. Consequently, the surety company's claim constituted a valid contingent claim and was improperly dismissed by the lower court.

Doctrine:

The Supreme Court reiterates the doctrine that contracts produce effects not just between the contracting parties, but also their heirs, assigns, and successors, except if the rights and obligations are intrinsically non-transmissible or are specifically stipulated as such or

provided by law to be non-transmissible.

Class Notes:

- A guarantor's obligation is generally transmissible upon death and enforceable against their estate.
- The heirs are bound by contracts entered into by the decedent unless such contracts are personal in nature, non-transferable by express stipulation, or intransmissible by law.
- A contingent claim based on a surety's potential liability can be filed against the estate of a deceased guarantor.
- The heirs' liability is limited up to the amount of the inheritance they receive.

Relevant legal provisions include:

- Article 774, 776, 1311, 2047-2084 of the Civil Code of the Philippines.
- Rule 87, Section 5 of the Rules of Court.

Historical Background:

The prevailing jurisprudence during the time regarding the transmissibility of obligations after death underscores the evolution from personal obligations to obligations attached to patrimony. The case reflects the legal principle that heirs inherit not only the assets but also the liabilities associated with the estate, aligning with the Civil Code's provisions on obligations and contracts and the progression toward depersonalizing certain aspects of these legal concepts.