

Title: FGU Insurance Corporation v. Spouses Floro Roxas and Eufemia Roxas

Facts:

This case originates from a Contract of Building Construction entered into on May 22, 1979, between respondents Spouses Floro and Eufemia Roxas and Rosendo P. Dominguez, Jr., with Philippine Trust Company (Philtrust Bank) funding the cost of materials and supplies. Spouses Roxas agreed to finance labor costs, and Dominguez obtained a performance bond from FGU Insurance Corporation (FGU). Dominguez later requested an adjustment of the contract price and claimed non-payment of agreed installments from the Spouses Roxas, leading to his cessation of work. Consequently, Dominguez pursued legal action against the Spouses Roxas and Philtrust Bank for the amounts due, and FGU was brought into the dispute over its liability under the surety bond.

The Regional Trial Court ruled in favor of Dominguez, modifying the contractual agreements and holding the Spouses Roxas liable for various payments to Dominguez. The Court of Appeals, however, found the contracts valid and FGU liable under the surety bond, modifying the lower court's decision and awarding damages to the parties involved.

Issues:

1. Whether FGU Insurance Corporation is liable for the full amount of its Surety Bond rather than just the cost overrun on account of Dominguez's non-completion of the project.
2. Whether the Spouses Roxas are entitled to liquidated damages under the Contract for Building Construction.
3. Whether there is a factual basis for the award of amounts with interest in favor of Dominguez.
4. Whether the liabilities of the Spouses Roxas to Dominguez may be set off against any liability of FGU Insurance Corporation.
5. Whether the Court of Appeals erred in remanding the case for the proper computation of the other claims of the Philippine Trust Company against the Spouses Roxas.
6. The liability of Philtrust Bank for the unauthorized release of construction funds.

Court's Decision:

The Supreme Court partially granted the petitions, confirming FGU's and Dominguez's liability to pay the Spouses Roxas and/or Philtrust Bank the amount stipulated in the surety bond with interests. It also ordered Dominguez to pay the Spouses Roxas and/or Philtrust Bank for liquidated and other damages, and it held the Spouses Roxas liable to Dominguez for specific amounts with interests. FGU was allowed to offset its liability against

Dominguez's collectibles from the Spouses Roxas, who, in turn, were found liable to Philtrust Bank for specific loan amounts and interests. The case was remanded to the trial court for execution.

Doctrine:

The liability of a surety is determined strictly in accordance with the actual terms of the performance bond it issued, and it may set up compensation against the amount owed by the creditor to the principal.

Class Notes:

- The liability of a surety is joint and several with the principal debtor.
- Contracts of guaranty and surety closely relate, with the distinction primarily on the aspect of the surety being the insurer of the debt.
- Compensation mechanisms may be set up by the guarantor/surety against what the creditor may owe the principal debtor (CIVIL CODE, arts. 1280, 1283).
- Liquidated damages are agreed upon by the parties and serve as a penalty for breach.
- In contracts involving multiple parties and obligations, the entirety of agreements and their stipulations must be construed together to ascertain the true intent of the parties.

Historical Background:

This case highlights the intricate relationship between contractual obligations, suretyship, and the enforcement of liabilities arising from construction contracts in the Philippines. It demonstrates the judiciary's role in mediating disputes involving performance bonds, ensuring the faithful completion of contractual duties, and the equitable resolution of claims among parties embroiled in contractual conflicts.