Title: Heirs of Servando Franco vs. Spouses Veronica and Danilo Gonzales

Facts:

This case originates from a series of loan transactions between Servando Franco and Leticia Medel (borrowers) and Veronica R. Gonzales (lender), starting on November 7, 1985, and culminating in a consolidated loan of P500,000 on July 23, 1986. Upon failure to repay, Gonzales filed a complaint for collection in 1990. The trial court's 1991 decision, modifying the interest rates deemed unconscionable, was overturned by the Court of Appeals (CA) in 1997, setting the interest as initially agreed. Upon review, the Supreme Court in **Medel v. Court of Appeals**, reversed the CA, reinstating the trial court's decision. Following the finality of this decision, Gonzales moved for execution, which was opposed by Franco, claiming a novation based on a subsequent agreement fixing the obligation at P775,000. The Regional Trial Court (RTC) and subsequently the CA upheld the motion for execution, rejecting the claim of novation.

Procedural Posture:

From the RTC to the Supreme Court, the legal battle underwent several stages:

1. Initial trial at the RTC leading to the 1991 decision modifying interest rates.
2. Appeal to the CA, resulting in a 1997 reversal in favor of the original interest rates.
3. Supreme Court review in **Medel v. Court of Appeals** that reinstated the RTC's decision.
4. Upon finality, Gonzales' motion for execution was sustained by the RTC despite Franco's opposition, which was based on an alleged novation.
5. The CA affirmed the RTC's decision on execution, leading to this appeal by Franco's heirs to the Supreme Court.

Issues:

1. Whether the 1991 RTC decision was novated by a 1992 compromise agreement.
2. Whether liability should be based on the 1991 RTC decision or the 1992 compromise agreement.

Court's Decision:

The Supreme Court found no merit in the petition, holding that novation did not occur as there was no irreconcilable incompatibility between the old and new obligations. The 1992 receipt acknowledging partial payment did not establish a new obligation but was merely a recognition of the existing debt under the promissory note. The Court affirmed the CA's decision, directing the RTC to proceed with execution based on its 1991 decision, minus the

P400,000 already paid by Franco.

Doctrine:
Novation requires (a) a previous valid obligation, (b) agreement to a new contract, (c) extinguishment of the old contract, and (d) a valid new contract. Novation is never presumed and must be clearly intended by the parties or demonstrate total incompatibility between old and new obligations.

Class Notes:
1. **Novation Essentials**: For novation to be valid, it must explicitly or implicitly extinguish the old obligation and introduce a new one incompatible in all aspects with the old.
2. **Solidary Obligation**: In solidary obligations, the creditor can proceed against any one of the debtors or all simultaneously. Change in the person of the debtor requires the creditor's consent.
3. **Interest Modification**: The unilateral modification of interest rates without a new agreement compatible with the original obligation does not constitute novation.
4. **Execution of Judgment**: A final and executory judgment becomes immutable and can be modified only to correct clerical errors or mistakes.

Historical Background:
The legal journey of this case through multiple levels of the judicial system exemplifies the intricate process of loan agreements, interest modifications, and the concept of novation within Philippine jurisprudence. The Supreme Court's decision in this and the preceding **Medel** case reflects the judiciary's stance on protecting parties from unconscionable interest rates while emphasizing the principles governing novation.