

****Title:**** Magdalena Estates, Inc. vs. Antonio A. Rodriguez, et al.

****Facts:****

This case concerns a transaction involving the sale of a parcel of land in Quezon City, known as lot 7-K-2-G, Psd-26193, by Magdalena Estates, Inc. (plaintiff-appellee) to spouses Antonio A. Rodriguez and Herminia C. Rodriguez (defendants-appellants). The appellants executed a promissory note on January 4, 1957, acknowledging an unpaid balance of P5,000.00 on the purchase price, payable to Magdalena Estate, Inc., with a 9% per annum interest, within 60 days.

Additionally, the appellants and Luzon Surety Co., Inc. (the surety) executed a bond guaranteeing the payment of the P5,000.00 balance. Luzon Surety Co., Inc. eventually paid this amount to the appellee when the obligation became due and demandable on June 20, 1958. The appellee later demanded from the appellants the payment of P655.89, allegedly representing the accumulated interest on the principal. The appellants refused to pay, prompting the appellee to file a suit in the Municipal Court of Manila, which decided in favor of the appellee. Dissatisfied, the appellants appealed to the Court of First Instance of Manila and then directly to the Supreme Court.

****Issues:****

1. Whether the payment of the principal amount without the interest constitutes full payment of the obligation.
2. Whether the acceptance by the creditor (Magdalena Estates, Inc.) of the payment from the surety without protesting for the interests constitutes waiver or condonation of the interest.
3. Whether there was a novation of the obligation due to the subsequent agreement as contained in the surety bond.

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

The Supreme Court affirmed the decision of the Court of First Instance.

1. ****On Issue 1:**** The Court held that the payment of the principal amount by Luzon Surety Co., Inc. does not extinguish the obligation to pay the stipulated interest, as the principal and interest are separate obligations in the promissory note.
2. ****On Issue 2:**** The Court determined that the acceptance of the principal amount

without any protest or objection does not imply a waiver or condonation of the interest. This is because the liability of the surety was strictly confined to the terms of its contract, which guaranteed only the payment of the principal amount.

3. **On Issue 3:** The Court ruled that there was no novation of the original obligation since the subsequent agreement (the surety bond) did not express a clear intention to novate the original contract, as both agreements can stand together.

Doctrine:

The key doctrines reiterated in this case include:

1. The principle that acceptance by the creditor of payment from the surety does not waive or condone any additional claims the creditor may have unless there's a clear intent or agreement to that effect.
2. The concept of novation which requires a clear intent or agreement that the original obligation is extinguished and replaced by the new obligation. Any ambiguity or doubt does not favor novation.

Class Notes:

1. **Promissory Note and Obligation:** The presence of an obligation along with stipulated interest in a promissory note requires the debtor to fulfil both principal and interest payments unless otherwise agreed.
2. **Surety's Liability:** Is limited to the terms of its contract and does not extend to obligations not expressly included in its agreement with the creditor.
3. **Payments and Obligations:** Payment of the principal does not extinguish the debtors' obligation to pay interest unless the creditor explicitly accepts it as full satisfaction of the debt.
4. **Novation:** Requires unequivocal proof or clear intent that the parties intended to extinguish the original obligation with a new one. Merely altering the terms of payment or adding new obligations does not necessarily constitute novation.
5. **Relevant Statutes:** Articles 1235 and 1253 of the Civil Code which govern the acceptance of performance and payment of interests vis-a-vis the principal amount.

Historical Background:

This case illustrates the principles of contract law and obligations as applied in the context of real estate transactions in the Philippines during the mid-20th century. It underscores the rigid interpretations by courts of contracts and the intention of the parties involved in financial agreements. The ruling in this case clarifies the application of the Civil Code provisions on acceptance of performance, payment of interest, and the concept of novation in the context of obligations with surety involvement.