

****Title:****

Commonwealth Insurance Corporation vs. Court of Appeals and Rizal Commercial Banking Corporation (466 Phil. 104)

****Facts:****

In 1984, Rizal Commercial Banking Corporation (RCBC) granted export loan lines to Jigs Manufacturing Corporation (JIGS) and Elba Industries, Inc. (ELBA), with respective amounts of P2,500,000.00 and P1,000,000.00. Both corporations utilized their credit lines and secured these loans with surety bonds issued by Commonwealth Insurance Company (CIC), totaling P4,464,128.00. Upon JIGS and ELBA defaulting their loans, RCBC made written demands to CIC for payment under the surety bonds. CIC partially paid a total of P2,000,000.00 from 1985 to 1988, but after a final demand in 1988 remained unpaid, RCBC filed a complaint for payment. The Regional Trial Court found CIC and the borrower corporations solidarily liable, awarding RCBC P2,464,128.00, attorney's fees, and costs. CIC's motion for reconsideration was denied.

CIC's appeal to the Court of Appeals (CA) resulted in a modification of the trial court's decision - imposing 12% interest on the surety bond amounts from the dates of demand until full payment, alongside the principal sums and additional legal costs. CIC's motion for reconsideration with the CA was denied, leading to this petition for review with the Supreme Court (SC).

****Issues:****

1. Whether CIC should be held liable to pay legal interest above its principal obligation under the surety bonds.
2. The applicability of a 12% interest rate per annum on the amount due.

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

The SC denied the petition, affirming the CA's decision in totality. The Court held that a surety's obligation to pay the bond amount does not exclude the liability to pay interest upon default, which arises not from the suretyship agreement but from the delay in fulfilling the obligation. The SC clarified that mere delay, induced by disputes over payment terms, does not absolve CIC from its principal obligation. Furthermore, the Court found the imposition of 12% interest per annum from the time of the extrajudicial demand until full payment to be in line with established legal precedents and principles for loans or forbearances of money without a stipulated interest rate.

****Doctrine:****

A surety who fails to pay upon demand may be held liable for interest, with their total liability potentially exceeding the face value of the principal obligation. This increased liability is derived not from the contract of suretyship but from the delay in payment and the resultant need for judicial collection. The case underscores that the liability for payment of interest arises from the law due to delay, independent of the suretyship agreement's stipulations.

****Class Notes:****

- ****Surety Bonds:**** A contract where a surety guarantees the debtor's obligation to the creditor. The surety's liability is limited to the amount of the bond.
- ****Legal Interest:**** If a surety defaults in payment upon demand, it may be liable for legal interest, even exceeding the bond amount. This interest stems from delay (*mora solvendi*) under Art. 1169 and 1170 of the Civil Code.
- ****12% Interest Rate:**** In cases of loans or forbearance of money without a written interest agreement, a 12% interest rate per annum applies from the time of judicial or extrajudicial demand until full payment (*Eastern Shipping Lines, Inc. vs. Court of Appeals*).

****Historical Background:****

This case illustrates the evolving jurisprudence surrounding suretyship and the obligations of sureties upon default in the context of commercial loans. It highlights the balance between contractual limitations and statutory penalties for failure to timely settle financial obligations. Through such rulings, the Philippine legal system reinforces the principles of fairness and accountability in commercial transactions, particularly in banking and insurance industries.