

**\*\*Title:\*\*** \*Ejercito et al. vs. Oriental Assurance Corporation\*

**\*\*Facts:\*\*** The core of this case dates back to May 10, 1999, when Oriental Assurance Corporation issued a Surety Bond favoring FFV Travel & Tours, Inc., guaranteed at P3 million for airline ticket purchases on credit from IATA members. Co-signing a Deed of Indemnity with Oriental were Paulino M. Ejercito, Jessie M. Ejercito, Johnny D. Chang, and Merissa C. Somes. This bond was renewed on April 17, 2000, with the premium paid, extending its validity until May 10, 2001. Upon FFV Travel & Tours Inc.'s default, resulting in a significant unpaid debt, IATA demanded and received payment from Oriental under the bond. When attempts to recover the P3 million from the indemnitors (Ejercitos, Chang, and Somes) fizzled, Oriental initiated a collection suit, which, after trial, was dismissed by the RTC against the petitioners (excluding Somes), who appealed to the CA. The CA overturned the RTC decision, holding all four indemnitors jointly liable.

**\*\*Procedure:\*\*** The litigation sequence began with Oriental Assurance's collection lawsuit at the RTC, followed by the court's decision absolving the Ejercitos and Chang while holding Somes solely responsible. The petitioner's appeal took the case to the Court of Appeals, which reversed the RTC's ruling, attributing liability to all indemnitors. Pursuing further relief, the petitioners appealed to the Supreme Court under Rule 45, challenging the CA's decision.

**\*\*Issues:\*\***

1. Whether the CA erred in finding the petitioners liable under the indemnity agreement beyond the original one-year bond period.
2. Whether the CA correctly imposed attorney's fees on the petitioners for an alleged breach of the indemnity agreement within the original bond's validity.

**\*\*Court's Decision:\*\*** The Supreme Court affirmed the CA's judgment, highlighting the binding nature of the indemnity contract. It underscored the explicit stipulation authorizing bond renewals or extensions, which bound the petitioners. The Court negated the defendants' assertion of non-consent to the surety bond's renewal, emphasizing the agreement's clear terms, their understanding, and the incontestability of payments made under such contracts.

**\*\*Doctrine:\*\*** The decision reiterates the principle that the terms of a clear and unambiguous contract are the law between the parties. It also underscores the enforceability of indemnity contracts, including provisions on renewals and extensions

consented to within the contract, regardless of subsequent claims of non-consent.

**\*\*Class Notes:\*\***

- **\*Contract Law Principle:** The clear and literal terms of a contract govern the obligations and rights of the parties involved.
- **\*Indemnity Contracts:** Such contracts can include provisions authorizing actions (like renewals) that bind all signatories, even in the absence of newly signed documents for each action.
- **\*Legal Obligations Beyond Original Terms:** Signing parties may be held liable for obligations beyond the original term if the contract explicitly allows for renewals or extensions and such conditions are met.
- **Relevant Provision Citations:** The ruling emphasized Articles 2077 to 2081 of the Civil Code regarding obligations and contracts, mainly focusing on the autonomy of contractual stipulations.

**\*\*Historical Background:\*\*** This case examines the intricacies of indemnity agreements in surety bonds, specifically concerning the airline ticket industry's credit transactions. It explores the legal obligations arising from such agreements, including the effects of renewal clauses and the burden of knowledge on educated signatories like lawyers. The ruling reaffirms and clarifies the application of contract principles to indemnity and surety agreements within Philippine jurisprudence.