Title: **Leonardo Bognot vs. RRI Lending Corporation**

Facts:

The case involves a loan transaction between Leonardo Bognot (petitioner) and his brother Rolando A. Bognot with RRI Lending Corporation (respondent) represented by its General Manager, Dario J. Bernardez. In September 1996, the Bognot siblings secured a loan of Five Hundred Thousand Pesos (P500,000.00) from the respondent, with a maturity date on November 30, 1996, secured by a promissory note and a post-dated check.

The petitioner, Leonardo Bognot, renewed the loan multiple times, each time paying a renewal fee, issuing a new post-dated check and executing/renewing the promissory note. The respondent canceled and returned the previously issued checks upon each renewal.

In March 1997, another renewal was made for the loan, evidencing a continued debtor-creditor relationship. Leonardo's brother Rolando's wife, Julieta Bognot, later attempted to renew the loan on their behalf but failed to return the required documents, leading to demands for payment by the respondent which went unheeded.

The respondent filed a complaint for sum of money before the Regional Trial Court (RTC) on November 27, 1997. The petitioner claimed that the loan was fully paid, and denied being involved in the renewal transactions beyond March 1997. The RTC ruled in favor of the respondent, finding the obligation joint and solidary, and this decision was affirmed by the Court of Appeals (CA).

Issues:

1. Whether the CA erred in holding the petitioner solidarily liable with Rolando.
2. Whether the petitioner is relieved from liability due to material alteration in the promissory note.
3. The validity of the petitioner's claims of (i) payment, and (ii) novation by substitution of debtors.

Court's Decision:

The Supreme Court partially granted the petition. It found:

– No evidence was presented to support the petitioner's claim of payment.
– The alteration of the promissory note did not relieve the petitioner of liability since other

evidence corroborated the existence and renewal of the loan.
– The claim of novation by substitution was rejected as the petitioner failed to show that the respondent consented to releasing him from the obligation.

The court acknowledged the joint liability of the petitioner and his brother for the loan but found the 5% monthly interest rate stipulated in the promissory note to be excessive and reduced it to 1% per month or 12% per annum.

Doctrine:

The case reiterates the doctrines on the burden of proof for claims of payment, the effects of alteration of negotiable instruments, and the requirements for novation by substitution of debtors. It also emphasizes that solidary liability cannot be inferred without clear evidence and articulates the principle that excessively high interest rates can be judicially reduced as contrary to morals.

Class Notes:

1. Burden of Proof: The party claiming payment has the burden of proving it.
2. Material Alteration: An alteration does not automatically discharge an obligor if other evidence establishes the obligation.
3. Novation: Requires clear and unequivocal proof, including the creditor's consent to release the original debtor.
4. Solidary Obligation: Must be clearly and expressly determined. Cannot be presumed.
5. Interest Rates: Excessive interest rates can be reduced by courts as unconscionable.

Historical Background:

This case illustrates the Philippine judiciary's approach towards disputes arising from loan transactions, especially those involving claims of payments, renewals, and interest rates. It underscores the judiciary's role in interpreting agreements and ensuring fairness in contractual obligations amidst the changing dynamics of creditor-debtor relationships.