

Title: Bank of the Philippine Islands vs. Amador Domingo

Facts:

The case originated from a Promissory Note executed on September 27, 1993, by spouses Amador Domingo and the late Mercy Maryden Domingo in favor of Makati Auto Center, Inc. for P629,856.00, secured by a Chattel Mortgage over a 1993 Mazda 323. The rights to the Promissory Note and Chattel Mortgage were transferred to Far East Bank and Trust Company (FEBTC), which later merged with Bank of the Philippine Islands (BPI).

After failing to pay 21 monthly installments, BPI demanded payment or the return of the vehicle for foreclosure. Subsequently, BPI filed a Complaint for Replevin and Damages with the Metropolitan Trial Court (MeTC) of Manila, which was docketed as Civil Case No. 168949-CV, after the spouses Domingo failed to comply. The Domingos claimed the car had been sold to Carmelita S. Gonzales, who assumed the mortgage with the bank's alleged conformity.

The MeTC ruled in favor of BPI, finding no novation occurred to release the spouses from their obligation. Acting on Amador's Motion for Reconsideration, the MeTC affirmed its decision but reduced attorney's fees awarded. The Regional Trial Court (RTC) of Manila reversed the MeTC decision on appeal by Amador, holding that an implied novation had occurred, thus dismissing BPI's complaint and awarding damages to Amador. BPI then appealed to the Court of Appeals, which affirmed the RTC's decision, finding implied novation through the acts of the creditor.

Issues:

1. Whether or not there was a novation of the loan obligation, thereby releasing the spouses Domingo from their debt and substituting Carmelita as the debtor.

Court's Decision:

The Supreme Court reversed the Court of Appeals and RTC's decisions, reinstating the MeTC's ruling favoring BPI. The Court held that there was no novation as the consent of the creditor (BPI/FEBTC) to the substitution of debtors was not established unequivocally. The supposed acts proving implied consent (e.g., the presence of the deed among the creditor's files, the return of checks, and non-immediate demand for payment from the original debtors) were deemed insufficient to prove novation.

Doctrine:

Consent of the creditor to a debtor's substitution must be express or shown by acts of

equivalent clarity. The mere absence of objection to a new party's assumption of obligations does not constitute a creditor's consent to a novation.

Class Notes:

1. Novation as a mode of extinguishing obligations requires the unequivocal consent of the creditor to the substitution of a new debtor.
2. The principle that *renuntiatio non praesumitur* emphasizes that a waiver of any right must be clearly and unequivocally manifested.
3. The acceptance of payment from a third person who assumes an obligation does not effectuate a novation absent an explicit release of the original debtor.
4. Implied consent to novation must be conclusively shown by the creditor's unmistakable acts.
5. The burden of proving novation rests on the party asserting its existence.

Historical Background:

This case contextualizes the legal treatment of novation in the Philippines, particularly in scenarios involving assignment of credit and assumption of debt. It elucidates the principle that clear and unmistakable consent by the creditor is paramount for novation by substitution of debtor to effectively release the original obligor from their commitment.