Title: Testate Estate of Lazaro Mota vs. Salvador Serra

Facts:
On February 1, 1919, plaintiffs and defendant Salvador Serra entered into a partnership aimed at constructing and exploiting a railroad connecting the “San Isidro” and “Palma” centrals to a location known as “Nandong,” with an initial capital of ₱150,000 to be equally shared. Plaintiffs were responsible for administration. Expenditures for the project, however, ballooned to ₱226,092.92 by May 15, 1920.

On January 29, 1920, Salvador Serra sold “Palma” to Venancio Concepcion, Phil. C. Whitaker, and Eusebio R. de Luzuriaga for ₱1,695,961.90. The vendees were to respect Serra’s existing agreement with the “San Isidro” Central for the railroad, assumable responsibilities included.

The plaintiffs later sold their share of the railroad to Concepcion and Whitaker for ₱237,722.15, with ₱47,544.43 paid. It was agreed this transaction would dissolve the existing partnership.

Subsequent default by Concepcion and Whitaker led to a mortgage foreclosure, and “Palma” reverted back to Serra. Plaintiffs, unpaid for their share of railroad expenditures, filed suit seeking ₱113,046.46 plus interest.

Procedural History:
Defendant Serra responded by arguing three defenses: novation of the contract via debtor substitution, merger of creditor and debtor rights, and the extinction of the original contract. The trial court ruled in Serra’s favor, determining a novation via substitution of debtor. Plaintiffs appealed the decision to the Supreme Court of the Philippines.

Issues:
1. Whether there was a valid novation of the original contract by substituting a new debtor with the consent of the creditor.
2. Whether the obligation was extinguished via merger of creditor and debtor rights.
3. Whether the dissolution of the partnership rendered the original contract and its obligations null and void.

Court’s Decision:
1. **Novation Issue**: The Court ruled no novation occurred. Article 1205 of the Civil Code requires the creditor’s express consent for novation, which was neither given nor indicated

through plaintiffs' actions. Instead, plaintiffs' lawsuit against the original debtor indicated non-consent to any debtor substitution.

2. **Merger of Rights Issue**: The assertion that the obligation was extinguished due to a merger of debtor and creditor rights was denied. Exhibit 5 indicated plaintiffs sold only their half of the railroad and did not transfer the credit owed by Serra. Hence, no merger of rights and obligations took place.

3. **Dissolution of Partnership Issue**: Despite partnership dissolution, it did not absolve prior obligations. As per legal precedence, a partnership must resolve pending obligations after dissolution. Consequently, Serra's debt arising before the dissolution was still valid and actionable.

Doctrine:
The Court reiterated that for a novation through debtor substitution, express creditor consent is necessary per Article 1205 of the Civil Code. Additionally, dissolution of a partnership does not extinguish existing obligations until fully settled.

Class Notes:
1. **Novation (Article 1205, Civil Code)**: Requires express consent of the creditor for substitution of a new debtor.
2. **Credit and Debtor Rights Merger (Article 1192, Civil Code)**: Debt is extinguished when creditor and debtor rights merge in one person.
3. **Partnership Dissolution (Article 1680-1700, Civil Code)**: Partnership obligations must be fulfilled even after dissolution until complete.

Historical Background:
The case reflects post-WWI economic adjustments in the Philippines, impacting agricultural enterprises like sugar centrals. Disputes over complex business transactions, paralleled with infrastructure and partnership issues typical of the era, contribute to the legal landscape's development focusing on contract and partnership law.