

**\*\*Title:\*\*** Romago, Inc. & Gonzalez v. Associated Bank and Metallor Trading Corp.

**\*\*Facts:\*\***

In 1978, Romago, Inc., secured three loans from Associated Bank: PHP 300,000.00 (Promissory Note BD-3728), PHP 700,000.00 (Promissory Note BD-3750), and another PHP 700,000.00 (Promissory Note BD-3714). Romago paid off the first two loans but defaulted on the third. The unpaid amount under BD-3714 was restructured into two new promissory notes in 1983: Promissory Note No. 9660 (PHP 700,000.00), and Promissory Note No. 9661 (PHP 629,572.00). Romago contended that these loans were conduit loans for Metallor Trading Corp, evidenced by letters from Metallor proposing to assume the obligations. Partial payments were made on the loan by Metallor but without a conclusive change of debtor agreed upon by the Bank.

The Bank filed an action for the unpaid loan in 1993, claiming Romago failed to clear the restructured debt. Romago filed a third-party complaint against Metallor, asserting it as the true debtor. Metallor moved for dismissal, arguing the claim was barred by prescription and denying express assumption of Romago's debt. The Regional Trial Court ruled in favor of the Bank, maintaining Romago's liability due to lack of explicit consent for novation. Romago's appeals to the Court of Appeals and subsequent motion for reconsideration were denied, prompting further escalation to the Supreme Court.

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

1. Whether a petition raising factual issues can be reviewed under Rule 45.
2. Whether novation took place, thus absolving Romago from the loan obligation.
3. Whether Romago is liable for attorney's fees stipulated in the promissory notes.

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

1. **\*\*Scope of Review under Rule 45:\*\*** The Supreme Court maintained that a Rule 45 review addresses legal, not factual questions unless exceptional circumstances are identified. Romago's claims required factual reevaluation, thus typically outside Rule 45's purview. The Supreme Court concluded that petitioners failed to substantiate any exception to permit re-examination of facts.

2. **\*\*Novation and Contractual Obligation:\*\*** The Court upheld that Romago remained obligated as no explicit or unambiguous creditor consent to substitute Metallor as debtor was evidenced. Partial payments by Metallor and its proposals did not equate to the Bank's unequivocal agreement to release Romago. The creditor's actions of demanding payment

from Romago, and lack of evidence proving payments by Metallor as a novation act, reinforced Romago's liability.

3. **Attorney's Fees:** The 20% attorney's fees stipulated in the promissory notes were upheld, seen within reason and enforceable under contract law.

**Doctrine:**

1. **Novation Must Be Express:** Novation cannot be presumed; it requires clear and unequivocal consent from the creditor to substitute debtors. Acts like accepting third-party payments do not imply novation unless explicitly releasing the original debtor.

2. **Scope of Review under Rule 45:** Review petitions under Rule 45 are limited to addressing legal issues and exclude disputing factual findings made by lower courts unless extraordinary conditions justify such assessments.

**Class Notes:**

- **Accommodation Party Liability:** Under the Negotiable Instruments Law (Section 29), accommodation parties, though not receiving value, are liable to the holder of the instrument.

- **Notion of Novation:** As per Civil Code principles implied in Arco Pulp and Paper Co., Inc., novation demands an express agreement or clear incompatibility between old and new obligations. Implicit actions or ambiguous creditor responses do not qualify.

- **Interest on Loans:** Earlier cases and standard banking provisions reiterate that both conventional and penalty interest must meet fairness, must be non-usurious, and are subject to judicial review if excessively burdensome.

- **Penalty and Compensatory Interest:** Civil Code Article 2208 allows stipulated attorney's fees but requires them to be reasonable. Courts may adjust excessive fees based on a quantum meruit basis (Gorospe and Sebastian v. Gochangco).

**Historical Background:**

The case arose from the typical corporate finance transactions in the Philippines during the late 20th century. Novation principles were a critical lens in accommodating evolving debtor-creditor relationships increasingly common in the commercial finance sector. It underscored formal structural adherence determining liability in restructured and high-interest corporate loans or three-party arrangements common in economic transits of the period. The case helped cement the necessity of clear express creditor consent in transferring debt obligations, avoiding legal uncertainties in restructured corporate finance

contexts.