

### Title: Metro Concast Steel Corporation, et al. vs. Allied Bank Corporation

### Facts:

**\*\*Background and Contracts:\*\***

1. Metro Concast Steel Corporation (Metro Concast) secured multiple loan transactions from Allied Bank Corporation (Allied Bank) via promissory notes and trust receipts.
2. The loans were guaranteed by the individual petitioners: Spouses Jose S. Dychiao and Tiu Oh Yan, Spouses Guillermo and Mercedes Dychiao, and Spouses Vicente and Filomena Dychiao.

**\*\*Obligations & Defaults:\*\***

1. The total loans amounted to P51,064,094.28, with due interest and penalties.
2. Petitioners failed to make the necessary payments, prompting Allied Bank to send demand letters dated December 10, 1998.

**\*\*Initial Legal Proceedings:\*\***

1. Allied Bank filed a complaint against Metro Concast and the individual petitioners in the Regional Trial Court (RTC) of Makati City for collection of the unpaid sum.
2. Petitioners, in their Second Amended Answer, admitted the debts but contested the interest and penalties. They claimed economic downturns and devaluation of the peso affected their business, leading to the offer of selling their equipment to cover the debts. Allied Bank refused, suggesting they sell the equipment themselves.

**\*\*Peakstar Oil Corporation Involvement:\*\***

1. In 2002, Peakstar Oil Corporation expressed interest in buying the scrap metal from petitioners.
2. A Memorandum of Agreement (MoA) was drawn between Metro Concast and Peakstar for a total of P34,000,000.00.

**\*\*Failure of MoA:\*\***

1. Peakstar failed to fulfill its obligations. Petitioners claimed this was an act of force majeure and that Allied Bank had agreed to the terms of the MoA through its agent, Atty. Peter Saw.
2. Petitioners alleged that Atty. Saw, representing Allied Bank, accepted initial payments and drafts bank guarantees.

**\*\*RTC Decision:\*\***

1. The RTC ruled in favor of petitioners, considering the obligations paid or otherwise

extinguished.

2. Allied Bank was said to be bound by the MoA, given Atty. Saw's active involvement and representations.

**\*\*Court of Appeals (CA) Decision:\*\***

1. The CA reversed RTC's decision, stating no substantial proof showed Allied Bank's direct involvement in the MoA.

2. Petitioners were still liable as the MoA did not directly connect the settlement of debts owed to Allied Bank.

3. Petitioners' motion for reconsideration was denied, leading them to bring the case before the Supreme Court.

**### Issues:**

1. Whether Metro Concast and the individual petitioners' loan obligations to Allied Bank had been extinguished through the subsequently failed MoA with Peakstar.

2. Whether the breach of terms in the MoA due to Peakstar's actions could be considered a force majeure to exculpate petitioners from their debt obligations.

3. Propriety of the RTC and CA's interpretations and grounds for holding petitioners liable or absolved.

**### Court's Decision:**

**\*\*Relevance of MoA:\*\***

1. The Supreme Court held that the MoA concerning the sale of assets is distinct and separate from petitioners' loan obligations to Allied Bank.

2. No substantial proof demonstrated the terms and conditions of the loan were modified or novated by the MoA; thus, one transaction's failure does not impact the loan obligations.

**\*\*Force Majeure Argument:\*\***

1. The Court dismissed the force majeure argument as Peakstar's breach was neither independent of human will nor impossible to foresee.

2. The elements of fortuitous events did not concur, making this argument unsustainable.

**\*\*Payment and Extinguishment of Debt:\*\***

1. The obligations were not proven to be settled or extinguished as petitioners could not substantiate their claims of payment or extinguishment through the failed MoA.

2. As such, petitioners remain liable for their debt and must fulfill their obligations with applicable interests and penalties reckoned from the date of extrajudicial demand

(December 10, 1998).

### ### Doctrine:

- Obligations are extinguished through specific means stipulated under Article 1231 of the Civil Code: payment, performance, loss of the thing due, remission of debt, merger of rights, compensation, and novation.
- A transaction's breach unrelated to the original obligation does not constitute force majeure excusing non-performance.

### ### Class Notes:

#### \*\*Key Legal Elements:\*\*

#### 1. \*\*Extent of Agency:\*\*

- Proof of proper authorization is imperative for actions to be binding.
- Representation by one's lawyer or agent must be substantiated.

#### 2. \*\*Force Majeure:\*\*

- Defined under jurisprudence as events not foreseeable or avoidable; threshold for applicability is high.

#### 3. \*\*Novation:\*\*

- For novation to occur, there must be a clear agreement altering the terms and conditions of the original obligation.

#### 4. \*\*Civil Code - Article 1231:\*\*

- Lists how obligations are extinguished, providing a basis for legal argument on payment and extinguishment claims.

#### \*\*Legal Principles:\*\*

- An obligor's claim of fulfilled obligation requires substantial proof.
- Separate transactions without modification of terms do not merge or relieve original obligations.

### ### Historical Background:

#### \*\*Economic Context:\*\*

1. The case is set against the backdrop of the 1997 Asian Financial Crisis, which caused significant economic turmoil in the Philippines and impacted businesses like Metro Concast.
2. The steel industry, significantly affected by the devaluation of the peso, provides context to the petitioners' financial difficulties and motives behind the attempts to liquidate assets.

**\*\*Legal Precedent:\*\***

1. Establishes clarity on agency and representation within corporate and debt settlements.
2. Reinforces strict interpretation of force majeure and conditional extinguishment of obligations in business liabilities.