

****Title:****

Banzon and Balmaceda vs. Court of Appeals and Sta. Maria, G.R. No. L-31789 (1972)

****Facts:****

Sometime in 1952, Maximo R. Sta. Maria obtained several crop loans from the Philippine National Bank (PNB). Associated Insurance and Surety Co., Inc. acted as surety for the loans, with Antonio R. Banzon and Emilio R. Naval as indemnitors to Associated. Sta. Maria later defaulted on his obligations, leading PNB to demand payment from Associated. Instead of settling with PNB, Associated filed a complaint against Sta. Maria and the indemnitors in 1956. The Court of First Instance (CFI) of Manila rendered a decision in 1957 against Sta. Maria and the indemnitors, ordering them to pay jointly and severally.

The judgment became final, leading to the execution of Banzon's properties covered by TCT Nos. 39685 and 53759. These properties were later sold at auction to Associated for P44,000.00, and the certificate of sale was registered. Despite attempts by Banzon to appeal and oppose the execution, the rulings were affirmed by higher courts, including the Supreme Court in several cases (G.R. No. L-23971, G.R. No. L-24765, and G.R. No. L-31789).

Due to procedural and legal battles, one of the properties was also acquired by Pedro Cardenas and Leonila Baluyot in execution of a different judgment against Associated. This led to subsequent litigation for possession and demolition of structures on the property, which the Banzons contested unsuccessfully up to the Court of Appeals.

Finally, the Banzons filed a case for damages against Sta. Maria in 1971 before the CFI of Rizal, Caloocan City, claiming that Sta. Maria's failure to pay his debts caused them severe prejudice.

****Issues:****

1. Whether or not the appellate court erred in sustaining the special defense of respondent Valeriana R. Sta. Maria that the complaint had no cause of action and was barred by prior judgment, estoppel, or laches.
2. Whether or not the Court of Appeals erred in basing its decision solely on the Supreme Court's earlier ruling in Banzon vs. Cruz.
3. Whether Maximo and Valeriana Sta. Maria are liable for the damages suffered by the petitioners due to the complex litigation events and property loss.

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

The Supreme Court affirmed the appellate court's decision absolving Maximo and Valeriana Sta. Maria from liability. Key points of the decision included:

- **Issue 1:** The Supreme Court found no error in the appellate court's reliance on the decision in *Banzon vs. Cruz*. The facts and findings in that decision unequivocally established that Associated's premature legal actions, and not Sta. Maria's failure to pay, were the proximate cause of the damages suffered by the Banzons.
- **Issue 2:** The appellate court rightly based its decision on the *Banzon vs. Cruz* ruling. This prior decision was submitted as evidence and provided a clear and binding resolution of the issues, stating that Associated's premature actions were wrongful.
- **Issue 3:** The Supreme Court declared that the damages suffered by the petitioners were not the natural and probable consequence of Sta. Maria's failure to repay his loans. Instead, they were due to the premature and fraudulent actions of Associated, thus breaking the causal chain between the non-payment and the subsequent damages.

Doctrine:

- Article 2071 of the Civil Code: Guarantors must first pay a debt before seeking reimbursement from the principal debtor.
- Indemnitors must not be prematurely pursued for payment without first exhausting remedies with the principal debtor.
- Moral damages require the proximate result of a wrongful act or omission, not merely the remote step in a causal sequence initiated by another's wrongdoing.

Class Notes:

- **Case Elements:** Suretyship, indemnity agreements, damages for wrongful act
- **Civil Code References:**
- Article 2071: Conditions under which a surety or guarantor may act against the principal debtor
- Articles 2201 and 2202: Damages must be natural and probable consequences of the act or omission
- **Key Legal Principles:** Guarantors' right to action; proximate and remote causes; moral and actual damages

Historical Background:

This case is rooted in the historical context of financial and litigation practices in mid-20th century Philippines, reflecting the complexities and procedural rigor of indemnities, suretyship, and enforcement of financial obligations. The numerous cases emerging from

this situation highlight evolving jurisprudence concerning the liabilities and rights of guarantors and indemnitors in Philippine law.