VISAYAN SURETY & INSURANCE CORPORATION, PETITIONER, VS. THE HONORABLE COURT OF APPEALS, SPOUSES JUN BARTOLOME+ AND SUSAN BARTOLOME AND DOMINADOR V. IBAJAN,+ RESPONDE...

G.R. No. 127261. September 07, 2001

Ponente: PARDO, J.

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PARDO, J.:

The Case

The case is a petition to review and set aside a decision[1] of the Court of Appeals affirming that of the Regional Trial Court, Biñan, Laguna, Branch 24, holding the surety liable to the intervenor in lieu of the principal on a replevin bond.

The Facts

The facts, as found by the Court of Appeals,[2] are as follows:

On February 2, 1993, the spouses Danilo Ibajan and Mila Ambe Ibajan filed with the Regional Trial Court, Laguna, Biñan a complaint against spouses Jun and Susan Bartolome, for replevin to recover from them the possession of an Isuzu jeepney, with damages. Plaintiffs Ibajan alleged that they were the owners of an Isuzu jeepney which was forcibly and unlawfully taken by defendants Jun and Susan Bartolome on December 8, 1992, while parked at their residence.

On February 8, 1993, plaintiffs filed a replevin bond through petitioner Visayan Surety & Insurance Corporation. The contract of surety provided thus:

> "WHEREFORE, we, sps. Danilo Ibajan and Mila Ibajan and the VISAYAN SURETY & INSURANCE CORP., of Cebu, Cebu, with branch office at Manila, jointly and severally bind ourselves in the sum of Three Hundred Thousand Pesos (P300,000.00) for the return of the property to the defendant, if the return thereof be adjudged, and for the payment to the defendant of such sum as he/she may recover from the plaintiff in the action."[3]

On February 8, 1993, the trial court granted issuance of a writ of replevin directing the sheriff to take the Isuzu jeepney into his custody. Consequently, on February 22, 1993, Sheriff Arnel Magat seized the subject vehicle and turned over the same to plaintiff spouses Ibajan.[4]

On February 15, 1993, the spouses Bartolome filed with the trial court a motion to quash the writ of replevin and to order the return of the jeepney to them.

On May 3, 1993, Dominador V. Ibajan, father of plaintiff Danilo Ibajan, filed with the trial court a motion for leave of court to intervene, stating that he has a right superior to the plaintiffs over the ownership and possession of the subject vehicle.

On June 1, 1993, the trial court granted the motion to intervene.

On August 8, 1993, the trial court issued an order granting the motion to quash the writ of replevin and ordering plaintiff Mila Ibajan to return the subject jeepney to the intervenor Dominador Ibajan.[5]

On August 31, 1993, the trial court ordered the issuance of a writ of replevin directing the sheriff to take into his custody the subject motor vehicle and to deliver the same to the intervenor who was the registered owner.[6]

On September 1, 1993, the trial court issued a writ of replevin in favor of intervenor Dominador Ibajan but it was returned unsatisfied.

On March 7, 1994, intervenor Dominador Ibajan filed with the trial court a motion/application for judgment against plaintiffs' bond.

On June 6, 1994, the trial court rendered judgement the dispositive portion of which reads:

> "WHEREFORE, in the light of the foregoing premises, judgment is hereby rendered in favor of Dominador Ibajan and against Mila Ibajan and the Visayan Surety and Insurance Corporation ordering them to pay the former jointly and severally the value of the subject jeepney in the amount of P150,000.00 and such other damages as may be proved by Dominador Ibajan plus costs."[7]

On June 28, 1994, Visayan Surety and Insurance Corporation and Mila Ibajan filed with the trial court their respective motions for reconsideration.

On August 16, 1994, the trial court denied both motions.

On November 24, 1995, Visayan Surety and Insurance Corporation (hereafter Visayan Surety) appealed the decision to the Court of Appeals.[8]

On August 30, 1996, the Court of Appeals promulgated its decision affirming the judgment of the trial court.[9] On September 19, 1996, petitioner filed a motion for reconsideration.[10]On December 2, 1996, the Court of Appeals denied the motion for reconsideration for lack of merit.[11]

Hence, this petition.[12]

The Issue

The issue in this case is whether the surety is liable to an intervenor on a replevin bond posted by petitioner in favor of respondents.[13]

Respondent Dominador Ibajan asserts that as intervenor, he assumed the personality of the original defendants in relation to the plaintiffs' bond for the issuance of a writ of replevin.

Petitioner Visayan Surety contends that it is not liable to the intervenor, Dominador Ibajan, because the intervention of the intervenor makes him a party to the suit, but not a beneficiary to the plaintiffs' bond. The intervenor was not a party to the contract of surety, hence, he was not bound by the contract.

The Court's Ruling

The petition is meritorious.

An intervenor is a person, not originally impleaded in a proceeding, who has legal interest in the matter in litigation, or in the success of either of the parties, or an interest against both, or is so situated as to be adversely affected by a distribution or other disposition of property in the custody of the court or of an officer thereof.[14]

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May an intervenor be considered a party to a contract of surety which he did not sign and which was executed by plaintiffs and defendants?

It is a basic principle in law that contracts can bind only the parties who had entered into it; it cannot favor or prejudice a third person.[15] Contracts take effect between the parties, their assigns, and heirs, except in cases where the rights and obligations arising from the contract are not transmissible by their nature, or by stipulation or by provision of law.[16]

A contract of surety is an agreement where a party called the surety guarantees the performance by another party called the principal or obligor of an obligation or undertaking in favor of a third person called the obligee.[17] Specifically, suretyship is a contractual relation resulting from an agreement whereby one person, the surety, engages to be answerable for the debt, default or miscarriage of another, known as the principal.[18]

The obligation of a surety cannot be extended by implication beyond its specified limits.[19] "When a surety executes a bond, it does not guarantee that the plaintiff's cause of action is meritorious, and that it will be responsible for all the costs that may be adjudicated against its principal in case the action fails. The extent of a surety's liability is determined only by the clause of the contract of suretyship."[20] A contract of surety is not presumed; it cannot extend to more than what is stipulated.[21]

Since the obligation of the surety cannot be extended by implication, it follows that the surety cannot be held liable to the intervenor when the relationship and obligation of the surety is limited to the defendants specified in the contract of surety.

WHEREFORE, the Court REVERSES and sets aside the decision of the Court of Appeals in CA-G. R. CV No. 49094. The Court rules that petitioner Visayan Surety & Insurance Corporation is not liable under the replevin bond to the intervenor, respondent Dominador V. Ibajan.

No costs.

SO ORDERED.

Davide, Jr., C.J., (Chairman), Puno, Kapunan, and Ynares-Santiago, JJ., concur.

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[1] In CA-G. R. CV No. 49094, promulgated on August 30, 1996, Imperial, J., ponente, Ibay Somera and Lipana-Reyes, JJ., concurring.

[2] With editorial changes.

[3] Petition, Annex "D", Plaintiff's Bond for Manual Delivery of Personal Property, Rollo, p. 81.

[4] Sheriff's Return, RTC Record, p. 36.

[5] Petition, Annex "G", Order, Rollo, pp. 85-87.

[6] Petition, Annex "E", Deed of Absolute Sale, Rollo, p. 83; Petition, Annex "F-1", Official Receipt, Rollo, p. 84.

[7] Petition, Annex "H", Judgment, Rollo, p. 89.

[8] Docketed as CA-G. R. CV No. 49094.

[9] Petition, Annex "A", Court of Appeals Decision, Rollo, pp. 69-76.

[10] CA Rollo, pp. 98-109.

[11] Petition, Annex "B", Court of Appeals Resolution, Rollo, p. 77.

[12] Filed January 20, 1997, Rollo, pp. 15-68. On September 1, 1999, we gave due course to the petition (Rollo, p. 180).

[13] Petitioners' Memorandum, Rollo, pp. 205-234, at p. 212.

[14] Rule 19, Section 1, 1997 Rules of Civil Procedure; Limpo v. Court of Appeals, 333 SCRA 575, 586 (2000); Pascual v. Court of Appeals, 360 Phil. 403, 423 (1998); Ortega v. Court of Appeals, 359 Phil. 126, 138-139 (1998).

[15] Integrated Packaging Corporation v. Court of Appeals, 333 SCRA 170, 178 (2000); Garcia v. Court of Appeals, 327 Phil. 1097, 1113 (1996).

[16] Article 1311, Civil Code of the Philippines; Uy v. Court of Appeals, 314 SCRA 69, 77 (1999); Bangayan v. Court of Appeals, 343 Phil. 902, 908 (1997).

[17] Section 175, Insurance Code of the Philippines.

[18] Garcia, Jr. v. Court of Appeals, 191 SCRA 493, 495 (1990).

[19] La Insular v. Machuca Go-Tauco, 39 Phil. 567, 570-571 (1919) Philippine National Bank v. Court of Appeals, 198 SCRA 767, 784 (1991).

[20] Section 176, Insurance Code of the Philippines; Zenith Insurance Corp. v. Court of Appeals, 204 Phil. 805, 812 (1982).

[21] Aguenza v. Metropolitan Bank and Trust Co., 337 Phil. 448, 458-459 (1997); Central Surety and Insurance Company, Inc. v. Ubay, 135 SCRA 58, 61 (1985).

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