

REPUBLIC GLASS CORPORATION AND GERVEL, INC., PETITIONERS, VS. LAWRENCE C. QUA, RESPONDENT.

G.R. No. 144413. July 30, 2004

Ponente: CARPIO, J.

Read online (full-text search, related cases, audio case brief): <https://batas.org/library/g-r-no-144413/>

CARPIO, J.:

The Case

Before the Court is a petition for review[1] assailing the 6 March 2000 Decision[2] and the 26 July 2000 Resolution of the Court of Appeals in CA-G.R. CV No. 54737. The Court of Appeals set aside the Order[3] of 3 May 1996 of the Regional Trial Court of Makati, Branch 63 (“RTC-Branch 63”), in Civil Case No. 88-2643 and reinstated the Decision[4] of 12 January 1996 in respondent’s favor.

The Facts

Petitioners Republic Glass Corporation (“RGC”) and Gervel, Inc. (“Gervel”) together with respondent Lawrence C. Qua (“Qua”) were stockholders of Ladtek, Inc. (“Ladtek”). Ladtek obtained loans from Metropolitan Bank and Trust Company (“Metrobank”)[5] and Private Development Corporation of the Philippines[6] (“PDCP”) with RGC, Gervel and Qua as sureties. Among themselves, RGC, Gervel and Qua executed Agreements for Contribution, Indemnity and Pledge of Shares of Stocks (“Agreements”).[7]

The Agreements all state that in case of default in the payment of Ladtek’s loans, the parties would reimburse each other the proportionate share of any sum that any might pay to the creditors.[8] Thus, a common provision appears in the Agreements:

RGC, GERVEL and QUA each covenant that each will respectively reimburse the party made to pay the Lenders to the extent and subject to the limitations set forth herein, all sums of money which the party made to pay the Lenders shall pay or become liable to pay by reason of any of the foregoing, and will make such payments within five (5) days from the date that the party made to pay the Lenders gives written notice to the parties hereto that it shall have become liable therefor and has advised the Lenders of its willingness to pay whether or not it shall have already paid out such sum or any part thereof to the Lenders or to the persons entitled thereto. (Emphasis supplied)

Under the same Agreements, Qua pledged 1,892,360 common shares of stock of General Milling Corporation (“GMC”) in favor of RGC and Gervel. The pledged shares of stock served as security for the payment of any sum which RGC and Gervel may be held liable under the Agreements.

Ladtek defaulted on its loan obligations to Metrobank and PDCP. Hence, Metrobank filed a collection case against Ladtek, RGC, Gervel and Qua docketed as Civil Case No. 8364 (“Collection Case No. 8364”) which was raffled to the Regional Trial Court of Makati, Branch 149 (“RTC-Branch 149”). During the pendency of Collection Case No. 8364, RGC and Gervel paid Metrobank P7 million. Later, Metrobank executed a waiver and quitclaim dated 7 September 1988 in favor of RGC and Gervel. Based on this waiver and quitclaim,[9]

Metrobank, RGC and Gervel filed on 16 September 1988 a joint motion to dismiss Collection Case No. 8364 against RGC and Gervel. Accordingly, RTC-Branch 149 dismissed the case against RGC and Gervel, leaving Ladtek and Qua as defendants.[10]

In a letter dated 7 November 1988, RGC and Gervel's counsel, Atty. Antonio C. Pastelero, demanded that Qua pay P3,860,646, or 42.22% of P8,730,543.55,[11] as reimbursement of the total amount RGC and Gervel paid to Metrobank and PDCP. Qua refused to reimburse the amount to RGC and Gervel. Subsequently, RGC and Gervel furnished Qua with notices of foreclosure of Qua's pledged shares.

Qua filed a complaint for injunction and damages with application for a temporary restraining order, docketed as Civil Case No. 88-2643 ("Foreclosure Case No. 88-2643"), with RTC-Branch 63 to prevent RGC and Gervel from foreclosing the pledged shares. Although it issued a temporary restraining order on 9 December 1988, RTC-Branch 63 denied on 2 January 1989 Qua's "Urgent Petition to Suspend Foreclosure Sale." RGC and Gervel eventually foreclosed all the pledged shares of stock at public auction. Thus, Qua's application for the issuance of a preliminary injunction became moot.[12]

Trial in Foreclosure Case No. 88-2643 ensued. RGC and Gervel offered Qua's Motion to Dismiss[13] in Collection Case No. 8364 as basis for the foreclosure of Qua's pledged shares. Qua's Motion to Dismiss states:

8. The foregoing facts show that the payment of defendants Republic Glass Corporation and Gervel, Inc. was for the entire obligation covered by the Continuing Surety Agreements which were Annexes "B" and "C" of the Complaint, and that the same naturally redound[ed] to the benefit of defendant Qua herein, as provided for by law, specifically Article 1217 of the Civil Code, which states that:

xxx

10. It is very clear that the payment of defendants Republic Glass Corporation and Gervel, Inc. was much more than the amount stipulated in the Continuing Surety Agreement which is the basis for the action against them and defendant Qua, which was just SIX MILLION TWO HUNDRED [THOUSAND] PESOS (P6,200,000.00), hence, logically the said alleged obligation must now be considered as fully paid and extinguished.

RGC and Gervel likewise offered as evidence in Foreclosure Case No. 88-2643 the Order dismissing Collection Case No. 8364,[14] which RTC-Branch 149 subsequently reversed on Metrobank's motion for reconsideration. Thus, RTC-Branch 149 reinstated Collection Case No. 8364 against Qua.

On 12 January 1996, RTC-Branch 63 rendered a Decision in Foreclosure Case No. 88-2643 ("12 January 1996 Decision") ordering RGC and Gervel to return the foreclosed shares of stock to Qua. The dispositive portion of the 12 January 1996 Decision reads:

WHEREFORE, premises considered, this Court hereby renders judgment ordering defendants jointly and severally liable to return to plaintiff the 1,892,360 shares of common stock of General Milling Corporation which they foreclosed on December 9, 1988, or should the return of these shares be no longer possible then to pay to plaintiff the amount of P3,860,646.00 with interest at 6% per annum from December 9, 1988 until fully paid and to pay plaintiff P100,000.00 as and for attorney's fees. The costs will be for defendants' account.

SO ORDERED.[15]

However, on RGC and Gervel's Motion for Reconsideration, RTC-Branch 63 issued its Order of 3 May 1996 ("3 May 1996 Order") reconsidering and setting aside the 12 January 1996 Decision. The 3 May 1996 Order states:

After a thorough review of the records of the case, and an evaluation of the evidence adduced by the parties as well as their contentions, the issues to be resolved boil down to the following:

- Whether or not the parties' obligation to reimburse, under the Indemnity Agreements was premised on the payment by any of them of the entire obligation;
- Whether or not there is basis to plaintiff's apprehension that he would be made to pay twice for the single obligation; and
- Whether or not plaintiff was benefited by the payments made by defendants.

Regarding the first issue, a closer scrutiny of the pertinent provisions of the Indemnity Agreements executed by the parties would not reveal any significant indication that the parties' liabilities are indeed premised on the payment by any of them of the entire obligation. These agreements clearly provide that the parties' obligation to reimburse accrues upon mere advice that one of them has paid or will so pay the obligation. It is not specified whether the payment is for the entire obligation or not.

Accordingly, the Court stands corrected in this regard. The obvious conclusion that can be seen now is that payment of the entire obligation is not a condition sine qua non for the paying party to demand reimbursement. The parties have expressly contracted that each will reimburse whoever is made to pay the obligation whether entirely or just a portion thereof.

On the second issue, plaintiff's apprehension that he would be made to pay twice for the single obligation is unfounded. Under the above-mentioned Indemnity Agreements, in the event that the creditors are able to collect from him, he has the right to ask defendants to pay their proportionate share, in the same way defendants had collected from the plaintiff, by foreclosing his pledged shares of stock, his proportionate share, after they had made payments. From all indications, the provisions of the Indemnity Agreements have remained binding between the parties.

On the third issue, there is merit to defendants' assertion that plaintiff has benefited from the payments made by defendants. As alleged by defendants, and this has not been denied by plaintiff, in Civil Case No. 8364 filed before Branch 149 of this Court, where the creditors were enforcing the parties' liabilities as sureties, plaintiff succeeded in having the case dismissed by arguing that defendants' payments [were] for the entire obligation, hence, the obligation should be considered fully paid and extinguished. With the dismissal of the case, the indications are that the creditors are no longer running after plaintiff to enforce his liabilities as surety of Ladtek.

Whether or not the surety agreements signed by the parties and the creditors were novated is not material in this controversy. The fact is that there was payment of the obligation. Hence, the Indemnity Agreements govern.

In the final analysis, defendants' payments gave rise to plaintiff's obligation to reimburse the former. Having failed to do so, upon demand, defendants were justified in foreclosing the pledged shares of stocks.

xxx

WHEREFORE, premises considered, the decision dated January 12, 1996 is reconsidered and set aside. The above-entitled complaint against defendants is DISMISSED.

Likewise, defendants' counterclaim is also dismissed.

SO ORDERED.[16] (Emphasis supplied)

Qua filed a motion for reconsideration of the 3 May 1996 Order which RTC-Branch 63 denied.

Aggrieved, Qua appealed to the Court of Appeals. During the pendency of the appeal, Qua filed a Manifestation[17] with the Court of Appeals attaching the Decision[18] of 21 November 1996 rendered in Collection Case No. 8364. The dispositive portion of the decision reads:

WHEREFORE, premises considered, judgment is hereby rendered ordering defendants Ladtek, Inc. and Lawrence C. Qua:

- To pay, jointly and severally, the plaintiff the amount of P44,552,738.34 as of October 31, 1987 plus the stipulated interest of 30.73% per annum and penalty charges of 12% per annum from November 1, 1987 until the whole amount is fully paid, less P7,000,000.00 paid by defendants Republic Glass Corporation and Gervel, Inc., but the liability of defendant Lawrence C. Qua should be limited only to P5,000,000.00 and P1,200,000.00, the amount stated in the Continuing Suretyship dated June 15, 1983, Exh. "D" and Continuing Suretyship dated December 14, 1981, Exh. "D-1", respectively, plus the stipulated interest and expenses incurred by the plaintiff.

- To pay, jointly and severally, the plaintiff an amount equivalent to ten (10%) percent of the total amount due as and by way of attorney's fees;

- To pay the cost of suit.

The Counterclaims of the defendants Ladtek, Inc. and Lawrence C. Qua against the plaintiff are hereby dismissed.

Likewise, the cross-claims of the defendants are dismissed.

SO ORDERED.[19] (Emphasis supplied)

On 6 March 2000, the Court of Appeals rendered the questioned Decision setting aside the 3 May 1996 Order of RTC-Branch 63 and reinstating the 12 January 1996 Decision ordering RGC and Gervel to return the foreclosed shares of stock to Qua.[20]

Hence, this petition.

The Ruling of the Court of Appeals

In reversing the 3 May 1996 Order and reinstating the 12 January 1996 Decision, the appellate court quoted the RTC-Branch 63's 12 January 1996 Decision:

The liability of each party under the indemnity agreements therefore is premised on the payment by any of them of the entire obligation. Without such payment, there would be no corresponding share to reimburse. Payment of the entire obligation naturally redounds to the benefit of the other solidary debtors who must then reimburse the paying co-debtors to the extent of his corresponding share.

In the case at bar, Republic Glass and Gervel made partial payments only, and so they did not extinguish the entire obligation. But Republic Glass and Gervel nevertheless obtained quitclaims in their favor and so they ceased to be solidarily liable with plaintiff for the balance of the debt (Exhs. "D", "E", and "I"). Plaintiff thus became solely liable for the unpaid portion of the debt even as he is being held liable for reimbursement on the said portion.

What happened therefore, was that Metrobank and PDCP in effect enforced the Suretyship Agreements jointly as against plaintiff and defendants. Consequently, the solidary obligation under the Suretyship Agreements was novated by the substantial modification of its principal conditions. xxx The resulting change was from one with three solidary debtors to one in which Lawrence Qua became the sole solidary co-debtor of Ladtek.

Defendants cannot simply pay off a portion of the debt and then absolve themselves from any further liability when the obligation has not been totally extinguished.

xxx

In the final reckoning, this Court finds that the foreclosure and sale of the shares pledged by plaintiff was

totally unjustified and without basis because the obligation secured by the underlying pledge had been extinguished by novation. xxx[21]

The Court of Appeals further held that there was an implied novation or substantial incompatibility in the surety's mode or manner of payment from one for the entire obligation to one merely of proportionate share. The appellate court ruled that RGC and Gervel's payment to the creditors only amounted to their proportionate shares of the obligation, considering the following evidence:

The letter of the Republic to the appellant, Exhibit "G", dated June 25, 1987, which mentioned the letter from PDCP confirming its willingness to release the joint and solidary obligation of the Republic and Gervel subject to some terms and conditions, one of which is the appellant's acceptable repayment plan of his "pro-rata share"; and the letter of PDCP to the Republic, Exhibit "H", mentioning full payment of the "pro rata share" of the Republic and Gervel, and the need of the appellant to submit an acceptable repayment plan covering his "pro-rata share", the release from solidary liability by PDCP, Exhibit "J", mentioning full payment by the Republic and Gervel of their "pro rata share" in the loan, as solidary obligors, subject however to the terms and conditions of the hold out agreement; and the non-payment in full of the loan, subject of the May 10, 1984 Promissory Note, except the 7 million payment by both Republic and Gervel, as mentioned in the Decision (Case No. 8364, Metrobank vs. Ladtek, et al). Precisely, Ladtek and the appellant, in said Decision were directed to pay Metrobank the balance of P9,560,798, supposedly due and unpaid.

Thus, the payment did not extinguish the entire obligation and did not benefit Qua. Accordingly, RGC and Gervel cannot demand reimbursement. The Court of Appeals also held that Qua even became solely answerable for the unpaid balance of the obligations by virtue of the quitclaims executed by Metrobank and PDCP in favor of RGC and Gervel. RGC and Gervel ceased to be solidarily liable for Ladtek's loan obligations.[22]

The Issues

RGC and Gervel raise the following issues for resolution:

I.

WHETHER THE PRINCIPLE OF ESTOPPEL APPLIES TO QUA'S JUDICIAL STATEMENTS THAT RGC AND GERVEL PAID THE ENTIRE OBLIGATION.

II.

WHETHER PAYMENT OF THE ENTIRE OBLIGATION IS A CONDITION SINE QUA NON FOR RGC AND GERVEL TO DEMAND REIMBURSEMENT FROM QUA UNDER THE INDEMNITY AGREEMENTS EXECUTED BY THEM AFTER RGC AND GERVEL PAID METROBANK UNDER THE SURETY AGREEMENT.

III.

ASSUMING ARGUENDO THAT THERE WAS NOVATION OF THE SURETY AGREEMENTS SIGNED BY THE PARTIES AND THE CREDITORS, WHETHER THE NOVATION IS MATERIAL IN THIS CASE.[23]

The Court's Ruling

We deny the petition.

Whether Qua was in estoppel

RGC and Gervel contend that Qua is in estoppel for making conflicting statements in two different and separate cases. Qua cannot now claim that the payment made to Metrobank was not for the entire obligation because of his

Motion to Dismiss Collection Case No. 8364 where he stated that RGC and Gervel's payment was for the entire obligation.

The essential elements of estoppel in pais are considered in relation to the party to be estopped, and to the party invoking the estoppel in his favor. On the party to be estopped, such party (1) commits conduct amounting to false representation or concealment of material facts or at least calculated to convey the impression that the facts are inconsistent with those which the party subsequently attempts to assert; (2) has the intent, or at least expectation that his conduct shall at least influence the other party; and (3) has knowledge, actual or constructive, of the real facts. On the party claiming the estoppel, such party (1) has lack of knowledge and of the means of knowledge of the truth on the facts in question; (2) has relied, in good faith, on the conduct or statements of the party to be estopped; (3) has acted or refrained from acting based on such conduct or statements as to change the position or status of the party claiming the estoppel, to his injury, detriment or prejudice.[24]

In this case, the essential elements of estoppel are inexistent.

While Qua's statements in Collection Case No. 8364 conflict with his statements in Foreclosure Case No. 88-2643, RGC and Gervel miserably failed to show that Qua, in making those statements, intended to falsely represent or conceal the material facts. Both parties undeniably know the real facts.

Nothing in the records shows that RGC and Gervel relied on Qua's statements in Collection Case No. 8364 such that they changed their position or status, to their injury, detriment or prejudice. RGC and Gervel repeatedly point out that it was the presiding judge[25] in Collection Case No. 8364 who relied on Qua's statements in Collection Case No. 8364. RGC and Gervel claim that Qua "deliberately led the Presiding Judge to believe" that their payment to Metrobank was for the entire obligation. As a result, the presiding judge ordered the dismissal of Collection Case No. 8364 against Qua.[26]

RGC and Gervel further invoke Section 4 of Rule 129 of the Rules of Court to support their stance:

Sec. 4. Judicial admissions. – An admission, verbal or written, made by a party in the course of the proceedings in the same case, does not require proof. The admission may be contradicted only by showing that it was made through palpable mistake or that no such admission was made.

A party may make judicial admissions in (a) the pleadings filed by the parties, (b) during the trial either by verbal or written manifestations or stipulations, or (c) in other stages of the judicial proceeding.[27]

The elements of judicial admissions are absent in this case. Qua made conflicting statements in Collection Case No. 8364 and in Foreclosure Case No. 88-2643, and not in the "same case" as required in Section 4 of Rule 129. To constitute judicial admission, the admission must be made in the same case in which it is offered. If made in another case or in another court, the fact of such admission must be proved as in the case of any other fact, although if made in a judicial proceeding it is entitled to greater weight.[28]

RGC and Gervel introduced Qua's Motion to Dismiss and the Order dismissing Collection Case No. 8364 to prove Qua's claim that the payment was for the entire obligation. Qua does not deny making such statement but explained that he "honestly believed and pleaded in the lower court and in CA-G.R. CV No. 58550 that the entire debt was fully extinguished when the petitioners paid P7 million to Metrobank." [29]

We find Qua's explanation substantiated by the evidence on record. As stated in the Agreements, Ladtek's original loan from Metrobank was only P6.2 million. Therefore, Qua reasonably believed that RGC and Gervel's P7 million payment to Metrobank pertained to the entire obligation. However, subsequent facts indisputably show that RGC and Gervel's payment was not for the entire obligation. RTC-Branch 149 reinstated Collection Case No. 8364 against Qua and ruled in Metrobank's favor, ordering Qua to pay P6.2 million.

Whether payment of the entire obligation is an essential condition for reimbursement

RGC and Gervel assail the Court of Appeals' ruling that the parties' liabilities under the Agreements depend on the full payment of the obligation. RGC and Gervel insist that it is not an essential condition that the entire obligation must first be paid before they can seek reimbursement from Qua. RGC and Gervel contend that Qua should pay 42.22% of any amount which they paid or would pay Metrobank and PDCP.

RGC and Gervels' contention is partly meritorious.

Payment of the entire obligation by one or some of the solidary debtors results in a corresponding obligation of the other debtors to reimburse the paying debtor.[30] However, we agree with RGC and Gervel's contention that in this case payment of the entire obligation is not an essential condition before they can seek reimbursement from Qua. The words of the Agreements are clear.

RGC, GERVEL and QUA each covenant that each will respectively reimburse the party made to pay the Lenders to the extent and subject to the limitations set forth herein, all sums of money which the party made to pay the Lenders shall pay or become liable to pay by reason of any of the foregoing, and will make such payments within five (5) days from the date that the party made to pay the Lenders gives written notice to the parties hereto that it shall have become liable therefor and has advised the Lenders of its willingness to pay whether or not it shall have already paid out such sum or any part thereof to the Lenders or to the persons entitled thereto. (Emphasis supplied)

The Agreements are contracts of indemnity not only against actual loss but against liability as well. In *Associated Insurance & Surety Co., Inc. v. Chua*,^[31] we distinguished between a contract of indemnity against loss and a contract of indemnity against liability, thus:^[32]

The agreement here sued upon is not only one of indemnity against loss but of indemnity against liability. While the first does not render the indemnitor liable until the person to be indemnified makes payment or sustains loss, the second becomes operative as soon as the liability of the person indemnified arises irrespective of whether or not he has suffered actual loss. (Emphasis supplied)

Therefore, whether the solidary debtor has paid the creditor, the other solidary debtors should indemnify the former once his liability becomes absolute. However, in this case, the liability of RGC, Gervel and Qua became absolute simultaneously when Ladtek defaulted in its loan payment. As a result, RGC, Gervel and Qua all became directly liable at the same time to Metrobank and PDCP. Thus, RGC and Gervel cannot automatically claim for indemnity from Qua because Qua himself is liable directly to Metrobank and PDCP.

If we allow RGC and Gervel to collect from Qua his proportionate share, then Qua would pay much more than his stipulated liability under the Agreements. In addition to the P3,860,646 claimed by RGC and Gervel, Qua would have to pay his liability of P6.2 million to Metrobank and more than P1 million to PDCP. Since Qua would surely exceed his proportionate share, he would then recover from RGC and Gervel the excess payment. This situation is absurd and circuitous.

Contrary to RGC and Gervel's claim, payment of any amount will not automatically result in reimbursement. If a solidary debtor pays the obligation in part, he can recover reimbursement from the co-debtors only in so far as his payment exceeded his share in the obligation.[33] This is precisely because if a solidary debtor pays an amount equal to his proportionate share in the obligation, then he in effect pays only what is due from him. If the debtor pays less than his share in the obligation, he cannot demand reimbursement because his payment is less than his actual debt.

To determine whether RGC and Gervel have a right to reimbursement, it is indispensable to ascertain the total obligation of the parties. At this point, it becomes necessary to consider the decision in Collection Case No. 8364 on the parties' obligation to Metrobank. To repeat, Metrobank filed Collection Case No. 8364 against Ladtek, RGC, Gervel and Qua to collect Ladtek's unpaid loan.

RGC and Gervel assail the Court of Appeals' consideration of the decision in Collection Case No. 8364[34] because Qua did not offer the decision in evidence during the trial in Foreclosure Case No. 88-2643 subject of this petition. RTC-Branch 62[35] rendered the decision in Collection Case No. 8364 on 21 November 1996 while Qua filed his Notice of Appeal of the 3 May 1996 Order on 19 June 1996. Qua could not have possibly offered in evidence the decision in Collection Case No. 8364 because RTC-Branch 62 rendered the decision only after Qua elevated the present case to the Court of Appeals. Hence, Qua submitted the decision in Collection Case No. 8364 during the pendency of the appeal of Foreclosure Case No. 88-2643 in the Court of Appeals.

As found by RTC-Branch 62, RGC, Gervel and Qua's total obligation was P14,200,854.37 as of 31 October 1987.[36] During the pendency of Collection Case No. 8364, RGC and Gervel paid Metrobank P7 million. Because of the payment, Metrobank executed a quitclaim[37] in favor of RGC and Gervel. By virtue of Metrobank's quitclaim, RTC-Branch 62 dismissed Collection Case No. 8364 against RGC and Gervel, leaving Ladtek and Qua as defendants. Considering that RGC and Gervel paid only P7 million out of the total obligation of P14,200,854.37, which payment was less than RGC and Gervel's combined shares in the obligation,[38] it was clearly partial payment. Moreover, if it were full payment, then the obligation would have been extinguished. Metrobank would have also released Qua from his obligation.

RGC and Gervel also made partial payment to PDCP. Proof of this is the Release from Solidary Liability that PDCP executed in RGC and Gervel's favor which stated that their payment of P1,730,543.55 served as "full payment of their corresponding proportionate share" in Ladtek's foreign currency loan.[39] Moreover, PDCP filed a collection case against Qua alone, docketed as Civil Case No. 2259, in the Regional Trial Court of Makati, Branch 150.[40]

Since they only made partial payments, RGC and Gervel should clearly and convincingly show that their payments to Metrobank and PDCP exceeded their proportionate shares in the obligations before they can seek reimbursement from Qua. This RGC and Gervel failed to do. RGC and Gervel, in fact, never claimed that their payments exceeded their shares in the obligations. Consequently, RGC and Gervel cannot validly seek reimbursement from Qua.

Whether there was novation of the Agreements

RGC and Gervel contend that there was no novation of the Agreements. RGC and Gervel further contend that any novation of the Agreements is immaterial to this case. RGC and Gervel disagreed with the Court of Appeals on the effect of the "implied novation" which supposedly transpired in this case. The Court of Appeals found that "there was an implied novation or substantial incompatibility in the mode or manner of payment by the surety from the entire obligation, to one merely of proportionate share." RGC and Gervel claim that if it is true that an implied novation occurred, then the effect "would be to release respondent (Qua) as the entire obligation is considered extinguished by operation of law." Thus, Qua should now reimburse RGC and Gervel his proportionate share under the surety agreements.

Novation extinguishes an obligation by (1) changing its object or principal conditions; (2) substituting the person of the debtor; and (3) subrogating a third person in the rights of the creditor. Article 1292 of the Civil Code clearly provides that in order that an obligation may be extinguished by another which substitutes the same, it should be declared in unequivocal terms, or that the old and new obligations be on every point incompatible with each

other.[41] Novation may either be extinctive or modificatory. Novation is extinctive when an old obligation is terminated by the creation of a new obligation that takes the place of the former. Novation is merely modificatory when the old obligation subsists to the extent it remains compatible with the amendatory agreement.[42]

We find that there was no novation of the Agreements. The parties did not constitute a new obligation to substitute the Agreements. The terms and conditions of the Agreements remain the same. There was also no showing of complete incompatibility in the manner of payment of the parties' obligations. Contrary to the Court of Appeals' ruling, the mode or manner of payment by the parties did not change from one for the entire obligation to one merely of proportionate share. The creditors, namely Metrobank and PDCP, merely proceeded against RGC and Gervel for their proportionate shares only.[43] This preference is within the creditors' discretion which did not necessarily affect the nature of the obligations as well as the terms and conditions of the Agreements. A creditor may choose to proceed only against some and not all of the solidary debtors. The creditor may also choose to collect part of the debt from some of the solidary debtors, and the remaining debt from the other solidary debtors.

In sum, RGC and Gervel have no legal basis to seek reimbursement from Qua. Consequently, RGC and Gervel cannot validly foreclose the pledge of Qua's GMC shares of stock which secured his obligation to reimburse.[44] Therefore, the foreclosure of the pledged shares of stock has no leg to stand on.

WHEREFORE, we DENY the petition. The Decision dated 6 March 2000 of the Court of Appeals in CA-G.R. CV No. 54737 is AFFIRMED. Costs against petitioners.

SO ORDERED.

Davide, Jr., C.J., (Chairman), Quisumbing, and Azcuna, JJ., concur.
Ynares-Santiago, J., no part.

[1] Under Rule 45 of the Rules of Court.

[2] Penned by Associate Justice Bernardo LL. Salas with Associate Justices Salome A. Montoya and Presbitero J. Velasco, Jr. concurring.

[3] Penned by Judge Amado A. Amador, Jr.

[4] Penned by Judge Ruben A. Mendiola.

[5] In its Decision dated 21 November 1996, the Regional Trial Court of Makati, Branch 62, found that Ladtek's loan from Metrobank amounted to P44,552,738.34 as of 31 October 1987.

[6] PDCP granted Ladtek a foreign currency loan in the amount of US\$110,000.00 on 20 January 1982.

[7] The Agreements were executed on 9 December 1981, November 1982 and 19 September 1983.

[8] The Agreements provide the following:

1. Contribution

Should the Company be in default under the Credit Agreements, and one party to the Suretyship Agreements is required to pay to the Lenders under the Suretyship Agreements, the other parties shall contribute an amount equivalent to the percentage set forth after their respective names below of each amount of principal, interest and all other sums, liability, loss and expense, including attorney's fees, that the party made to pay the Lenders may incur by reason of its executing the Suretyship Agreements, or in defending or prosecuting any suit, action

or other proceeding brought in connection therewith, or in obtaining or attempting to obtain a release from any liability in respect thereof:RGC - 35.557%

Gervel - 22.223%

Qua - 42.220%

It is the intention that as between the parties hereto, each party would be liable for any default by the Company under the Credit Agreements only to the extent of the percentage that the stockholdings of each in the Company bears to the aggregate stockholdings in the Company of all the parties hereto. (Emphasis supplied)

[9] Exhibit “D,” Records, p. 316.

[10] Exhibit “F,” Records, p. 319.

[11] RGC and Gervel paid Metrobank P7 million and PDGP P1,730,543.55.

[12] Records, p. 50.

[13] Exhibit “6” to “6-D,” Records, pp. 392-396.

[14] Exhibit “7” to “7-C-1,” Records, pp. 397-400.

[15] Rollo, p. 69.

[16] Rollo, pp. 71-73.

[17] Ibid., pp. 126-128.

[18] Penned by Judge Roberto C. Diokno.

[19] Rollo, pp. 129-151.

[20] Ibid., p. 56.

[21] Ibid., pp. 53-56.

[22] Ibid., pp. 51-52.

[23] Ibid., p. 287.

[24] Philippine National Bank v. Court of Appeals, G.R. No. 121739, 14 June 1999, 308 SCRA 229; Kalalo v. Luz, No. L-27782, 31 July 1970, 34 SCRA 337. See also Philippine Bank of Communications v. Court of Appeals, G.R. No. 109803, 20 April 1998, 289 SCRA 178.

[25] Now Associate Justice of this Court, Consuelo Ynares-Santiago.

[26] As earlier stated, Case No. 8364 was reinstated against Qua upon Metrobank’s motion for reconsideration of the dismissal of the case.

[27] FLORENZ D. REGALADO, REMEDIAL LAW COMPENDIUM, VOLUME TWO, SEVENTH REVISED EDITION, 650.

[28] Ibid.

[29] Rollo, p. 239.

[30] This is in accordance with Art. 1217 of the Civil Code which expressly provides:

Payment made by one of the solidary debtors extinguishes the obligation. If two or more solidary debtors offer

to pay, the creditor may choose which offer to accept.

He who made the payment may claim from his co-debtors only the share which corresponds to each, with interest for the payment already made. If the payment is made before the debt is due, no interest for the intervening period may be demanded.

xxx

See also *Malayan Insurance Co., Inc. v. Court of Appeals*, No. L-36413, 26 September 1988, 165 SCRA 536; *Camus v. Hon. Court of Appeals, et al.*, 107 Phil. 4 (1960).

[31] L-15656, 31 January 1963, 7 SCRA 52. In *Associated Insurance*, the insurance company put up a bail bond for the provisional liberty of the accused. An indemnity agreement in favor of the insurance company was in turn signed by appellant, solidarily with accused. Accused failed to appear in court for trial, thus, the bail bond was ordered confiscated. After judgment on the bond was rendered, the insurance company filed an action against appellant on the indemnity agreement. The Court ruled that the stipulation in the indemnity agreement allowing the insurance company to proceed against appellant for indemnification even prior to actual satisfaction of the judgment on the bond is valid and not contrary to public policy.

[32] *Guerrero v. Court of Appeals*, No. L-22366, 30 October 1969, 29 SCRA 791.

[33] ARTURO M. TOLENTINO, COMMENTARIES AND JURISPRUDENCE ON THE CIVIL CODE OF THE PHILIPPINES, VOLUME IV, 1997, 244.

[34] The decision in Case No. 8364 became final on 15 March 2004. The Court denied Qua's petition for review and the motion for reconsideration of the Court of Appeals' decision affirming the decision of the Regional Trial Court of Makati, Branch 62.

[35] Case No. 8364 was later assigned to RTC-Branch 62.

[36] As stated in the decision in Case No. 8364, which was affirmed by the Court of Appeals.

[37] The quitclaim provides:

xxx in consideration of the payment of SEVEN MILLION PESOS (P7,000,000.00) Philippine Currency, made by Republic Glass Corporation and Gervel, Inc., receipt of which is hereby acknowledged, does hereby WAIVE, QUITCLAIM, TERMINATE AND RELINQUISH any and all rights, claims or causes of action that Metrobank may have against Republic Glass Corp. and Gervel, Inc. xxx, in Civil Case No. 8364, xxx, thereby releasing and discharging forever said Republic Glass Corp. and Gervel, Inc., as well as its officers and directors, from any and all liabilities of whatsoever kind or nature related to the above case, or related to any account of Ladtek, Inc. and/or Lawrence C. Qua.

[38] RGC's share is 35.557% while Gervel's share is 22.223% of the obligation.

RGC - 35.557%

+ Gervel - 22.223%

Total - 57.780%

57.780% of P14,200,854.37 (total obligation) is equal to P8,205,253.655.

[39] The release provides:

WHEREAS, RGC and GERVEL, in consideration of their full payment of their corresponding proportionate share in the Loan of the BORROWER, have requested to be released from their obligation as solidary obligor under and by virtue of the abovementioned Assumption of Solidary Liability and the LENDER have consented and agreed to release the said solidary obligors, subject to the terms and conditions of that Holdout Agreement, dated December 17, 1987, between the LENDER, RGC and GERVEL; xxx (Emphasis supplied)

[40] Records, pp. 192-199.

[41] Tropical Homes, Inc. v. Court of Appeals, G.R. No. 111858, 14 May 1997, 272 SCRA 428.

[42] Quinto v. People, G.R. No. 126712, 14 April 1999, 305 SCRA 708. See also Bautista v. Pilar Development Corporation, G.R. No. 135046, 17 August 1999, 312 SCRA 611.

[43] Art. 1216 of the Civil Code states:

Art. 1216. The creditor may proceed against any one of the solidary debtors or some or all of them simultaneously. The demand made against one of them shall not be an obstacle to those which may subsequently be directed against the others, so long as the debt has not been fully collected.

See also Guerrero v. Court of Appeals, No. L-22366, 30 October 1969, 29 SCRA 791.

[44] Art. 2087 of the Civil Code provides:

Art. 2087. It is also the essence of these contracts (pledge, mortgage and antichresis) that when the principal obligation becomes due, the things in which the pledge or mortgage consists may be alienated for the payment to the creditor.

ABOUT BATAS.ORG

Study smarter at BATAS.org

The Philippine bar review and law-school companion built around how your brain actually remembers.

The complete Philippine law library - free for everyone.

More than 100,000 Supreme Court decisions, Republic Acts, and executive issuances - full-text searchable, browsable by category and year, and always free. No paywall, no login. This PDF came from it.

Audio case-brief lectures.

Any decision becomes a podcast-style lecture - facts, issues, ruling, and doctrine - with read-along highlighting and a hands-free presentation mode. Study while commuting, working out, or resting your eyes.

Bar review built on the science of memory.

Complete, sequenced courses for all eight bar subjects, narrated like podcasts and reinforced with retrieval practice and spaced review - the study techniques with the strongest evidence behind them.

The full law-school curriculum.

One subscription unlocks the entire J.D. curriculum - every subject, every lesson, with your progress tracked down to the paragraph so you can pick up exactly where you left off, on any device.

Mock exams that tell you where you stand.

Timed multiple-choice exams graded instantly, with per-subject score breakdowns and focus suggestions that point you at your weakest topics first.

A study planner that keeps you on pace.

Set your schedule and BATAS tells you every day whether you are on track for bar day - and exactly which lesson to take next.

Start free at <https://batas.org>

The law library is free forever - and your first lesson is one click away.

The text of this document is an official public record and remains in the public domain. Formatting, presentation, and compilation © 2026 batas.org.

Downloaded free from the batas.org Law Library. Share it freely - the library is free for every law student, bar reviewee, and practitioner.