

ARCADIO AND MARIA LUISA CARANDANG, PETITIONERS, VS. HEIRS OF QUIRINO A. DE GUZMAN, NAMELY: MILAGROS DE GUZMAN, VICTOR DE GUZMAN, REYNALDO DE GUZMAN, CYNTHIA G. RAGASA AND QUIRIN...

G.R. NO. 160347. November 29, 2006

Ponente: CHICO-NAZARIO, J.

Read online (full-text search, related cases, audio case brief): <https://batas.org/library/g-r-no-160347/>

CHICO-NAZARIO, J.:

This is a Petition for Review on Certiorari assailing the Court of Appeals Decision[1] and Resolution affirming the Regional Trial Court (RTC) Decision rendering herein petitioners Arcadio and Luisa Carandang [hereinafter referred to as spouses Carandang] jointly and severally liable for their loan to Quirino A. de Guzman.

The Court of Appeals summarized the facts as follows:

[Quirino de Guzman] and [the Spouses Carandang] are stockholders as well as corporate officers of Mabuhay Broadcasting System (MBS for brevity), with equities at fifty four percent (54%) and forty six percent (46%) respectively.

On November 26, 1983, the capital stock of MBS was increased, from P500,000 to P1.5 million and P345,000 of this increase was subscribed by [the spouses Carandang]. Thereafter, on March 3, 1989, MBS again increased its capital stock, from P1.5 million to P3 million, [the spouses Carandang] yet again subscribed to the increase. They subscribed to P93,750 worth of newly issued capital stock.

[De Guzman] claims that, part of the payment for these subscriptions were paid by him, P293,250 for the November 26, 1983 capital stock increase and P43,125 for the March 3, 1989 Capital Stock increase or a total of P336,375. Thus, on March 31, 1992, [de Guzman] sent a demand letter to [the spouses Carandang] for the payment of said total amount.

[The spouses Carandang] refused to pay the amount, contending that a pre-incorporation agreement was executed between [Arcadio Carandang] and [de Guzman], whereby the latter promised to pay for the stock subscriptions of the former without cost, in consideration for [Arcadio Carandang's] technical expertise, his newly purchased equipment, and his skill in repairing and upgrading radio/communication equipment therefore, there is no indebtedness on their part [sic].

On June 5, 1992, [de Guzman] filed his complaint, seeking to recover the P336,375 together with damages. After trial on the merits, the trial court disposed of the case in this wise:

"WHEREFORE, premises considered, judgment is hereby rendered in favor of [de Guzman]. Accordingly, [the spouses Carandang] are ordered to jointly and severally pay [de Guzman], to wit:

- (1) P336,375.00 representing [the spouses Carandang's] loan to de Guzman;
- (2) interest on the preceding amount at the rate of twelve percent (12%) per annum from June 5, 1992 when this complaint was filed until the principal amount shall have been fully paid;

(3) P20,000.00 as attorney's fees;

(4) Costs of suit.

The spouses Carandang appealed the RTC Decision to the Court of Appeals, which affirmed the same in the 22 April 2003 assailed Decision:

WHEREFORE, in view of all the foregoing the assailed Decision is hereby AFFIRMED. No costs.[2]

The Motion for Reconsideration filed by the spouses Carandang was similarly denied by the Court of Appeals in the 6 October 2003 assailed Resolution:

WHEREFORE, in view thereof, the motion for reconsideration is hereby DENIED and our Decision of April 22, 2003, which is based on applicable law and jurisprudence on the matter is hereby AFFIRMED and REITERATED.[3]

The spouses Carandang then filed before this Court the instant Petition for Review on Certiorari, bringing forth the following issues:

I.

WHETHER OR NOT THE HONORABLE COURT OF APPEALS COMMITTED MANIFEST ERROR IN FAILING TO STRICTLY COMPLY WITH SECTION 16, RULE 3 OF THE 1997 RULES OF CIVIL PROCEDURE.

II.

WHETHER OR NOT THE HONORABLE COURT OF APPEALS SERIOUSLY ERRED IN ITS FINDING THAT THERE IS AN ALLEGED LOAN FOR WHICH PETITIONERS ARE LIABLE, CONTRARY TO EXPRESS PROVISIONS OF BOOK IV, TITLE XI, OF THE NEW CIVIL CODE PERTAINING TO LOANS.

III.

WHETHER OR NOT THE HONORABLE COURT OF APPEALS SERIOUSLY ERRED IN FINDING THAT THE RESPONDENTS WERE ABLE TO DISCHARGE THEIR BURDEN OF PROOF, IN COMPLETE DISREGARD OF THE REVISED RULES ON EVIDENCE.

IV.

WHETHER OR NOT THE HONORABLE COURT OF APPEALS COMMITTED REVERSIBLE ERROR WHEN IT FAILED TO APPLY SECTIONS 2 AND 7, RULE 3 OF THE 1997 RULES OF CIVIL PROCEDURE.

V.

WHETHER OR NOT THE HONORABLE COURT OF APPEALS SERIOUSLY ERRED IN FINDING THAT THE PURPORTED LIABILITY OF PETITIONERS ARE JOINT AND SOLIDARY, IN VIOLATION OF ARTICLE 1207 OF THE NEW CIVIL CODE.[4]

Whether or not the RTC Decision is void
for failing to comply with Section 16, Rule
3 of the Rules of Court

The spouses Carandang claims that the Decision of the RTC, having been rendered after the death of Quirino de Guzman, is void for failing to comply with Section 16, Rule 3 of the Rules of Court, which provides:

SEC. 16. Death of party; duty of counsel. – Whenever a party to a pending action dies, and the claim is not thereby extinguished, it shall be the duty of his counsel to inform the court within thirty (30) days after such death of the fact thereof, and to give the name and address of his legal representative or representatives. Failure of counsel to comply with this duty shall be a ground for disciplinary action.

The heirs of the deceased may be allowed to be substituted for the deceased, without requiring the appointment of an executor or administrator and the court may appoint a guardian ad litem for the minor heirs.

The court shall forthwith order the legal representative or representatives to appear and be substituted within a period of thirty (30) days from notice.

If no legal representative is named by the counsel for the deceased party, or if the one so named shall fail to appear within the specified period, the court may order the opposing party, within a specified time, to procure the appointment of an executor or administrator for the estate of the deceased and the latter shall immediately appear for and on behalf of the deceased. The court charges in procuring such appointment, if defrayed by the opposing party, may be recovered as costs.

The spouses Carandang posits that such failure to comply with the above rule renders void the decision of the RTC, in adherence to the following pronouncements in *Vda. de Haberer v. Court of Appeals*[5] and *Ferreria v. Vda. de Gonzales*[6]:

Thus, it has been held that when a party dies in an action that survives and no order is issued by the court for the appearance of the legal representative or of the heirs of the deceased in substitution of the deceased, and as a matter of fact no substitution has ever been effected, the trial held by the court without such legal representatives or heirs and the judgment rendered after such trial are null and void because the court acquired no jurisdiction over the persons of the legal representatives or of the heirs upon whom the trial and judgment would be binding.[7]

In the present case, there had been no court order for the legal representative of the deceased to appear, nor had any such legal representative appeared in court to be substituted for the deceased; neither had the complainant ever procured the appointment of such legal representative of the deceased, including appellant, ever asked to be substituted for the deceased. As a result, no valid substitution was effected, consequently, the court never acquired jurisdiction over appellant for the purpose of making her a party to the case and making the decision binding upon her, either personally or as a representative of the estate of her deceased mother.[8]

However, unlike jurisdiction over the subject matter which is conferred by law and is not subject to the discretion of the parties,[9] jurisdiction over the person of the parties to the case may be waived either expressly or impliedly.[10] Implied waiver comes in the form of either voluntary appearance or a failure to object.[11]

In the cases cited by the spouses Carandang, we held that there had been no valid substitution by the heirs of the deceased party, and therefore the judgment cannot be made binding upon them. In the case at bar, not only do the heirs of de Guzman interpose no objection to the jurisdiction of the court over their persons; they are actually claiming and embracing such jurisdiction. In doing so, their waiver is not even merely implied (by their participation in the appeal of said Decision), but express (by their explicit espousal of such view in both the Court of Appeals and in this Court). The heirs of de Guzman had no objection to being bound by the Decision of the RTC.

Thus, lack of jurisdiction over the person, being subject to waiver, is a personal defense which can only be asserted by the party who can thereby waive it by silence.

It also pays to look into the spirit behind the general rule requiring a formal substitution of heirs. The underlying principle therefor is not really because substitution of heirs is a jurisdictional requirement, but because

non-compliance therewith results in the undeniable violation of the right to due process of those who, though not duly notified of the proceedings, are substantially affected by the decision rendered therein.[12] Such violation of due process can only be asserted by the persons whose rights are claimed to have been violated, namely the heirs to whom the adverse judgment is sought to be enforced.

Care should, however, be taken in applying the foregoing conclusions. In *People v. Florendo*,[13] where we likewise held that the proceedings that took place after the death of the party are void, we gave another reason for such nullity: "the attorneys for the offended party ceased to be the attorneys for the deceased upon the death of the latter, the principal x x x." Nevertheless, the case at bar had already been submitted for decision before the RTC on 4 June 1998, several months before the passing away of de Guzman on 19 February 1999. Hence, no further proceedings requiring the appearance of de Guzman's counsel were conducted before the promulgation of the RTC Decision. Consequently, de Guzman's counsel cannot be said to have no authority to appear in trial, as trial had already ceased upon the death of de Guzman.

In sum, the RTC Decision is valid despite the failure to comply with Section 16, Rule 3 of the Rules of Court, because of the express waiver of the heirs to the jurisdiction over their persons, and because there had been, before the promulgation of the RTC Decision, no further proceedings requiring the appearance of de Guzman's counsel.

Before proceeding with the substantive aspects of the case, however, there is still one more procedural issue to tackle, the fourth issue presented by the spouses Carandang on the non-inclusion in the complaint of an indispensable party.

Whether or not the RTC should have dismissed the case for failure to state a cause of action, considering that Milagros de Guzman, allegedly an indispensable party, was not included as a party-plaintiff

The spouses Carandang claim that, since three of the four checks used to pay their stock subscriptions were issued in the name of Milagros de Guzman, the latter should be considered an indispensable party. Being such, the spouses Carandang claim, the failure to join Mrs. de Guzman as a party-plaintiff should cause the dismissal of the action because "(i)f a suit is not brought in the name of or against the real party in interest, a motion to dismiss may be filed on the ground that the complaint states no cause of action." [14]

The Court of Appeals held:

We disagree. The joint account of spouses Quirino A de Guzman and Milagros de Guzman from which the four (4) checks were drawn is part of their conjugal property and under both the Civil Code and the Family Code the husband alone may institute an action for the recovery or protection of the spouses' conjugal property.

Thus, in *Docena v. Lapesura* [355 SCRA 658], the Supreme Court held that "x x x Under the New Civil Code, the husband is the administrator of the conjugal partnership. In fact, he is the sole administrator, and the wife is not entitled as a matter of right to join him in this endeavor. The husband may defend the conjugal partnership in a suit or action without being joined by the wife. x x x Under the Family Code, the administration of the conjugal property belongs to the husband and the wife jointly. However, unlike an act of alienation or encumbrance where the consent of both spouses is required, joint management or administration does not require that the husband and wife always act together. Each spouse may validly exercise full power of management alone, subject to the intervention of the court in proper cases as provided under Article 124 of the Family Code. x x x."

The Court of Appeals is correct. Petitioners erroneously interchange the terms "real party in interest" and "indispensable party." A real party in interest is the party who stands to be benefited or injured by the judgment of the suit, or the party entitled to the avails of the suit.[15] On the other hand, an indispensable party is a party in interest without whom no final determination can be had of an action,[16] in contrast to a necessary party, which is one who is not indispensable but who ought to be joined as a party if complete relief is to be accorded as to those already parties, or for a complete determination or settlement of the claim subject of the action.[17]

The spouses Carandang are indeed correct that "(i)f a suit is not brought in the name of or against the real party in interest, a motion to dismiss may be filed on the ground that the complaint states no cause of action." [18] However, what dismissal on this ground entails is an examination of whether the parties presently pleaded are interested in the outcome of the litigation, and not whether all persons interested in such outcome are actually pleaded. The latter query is relevant in discussions concerning indispensable and necessary parties, but not in discussions concerning real parties in interest. Both indispensable and necessary parties are considered as real parties in interest, since both classes of parties stand to be benefited or injured by the judgment of the suit.

Quirino and Milagros de Guzman were married before the effectivity of the Family Code on 3 August 1988. As they did not execute any marriage settlement, the regime of conjugal partnership of gains govern their property relations.[19]

All property acquired during the marriage, whether the acquisition appears to have been made, contracted or registered in the name of one or both spouses, is presumed to be conjugal unless the contrary is proved.[20] Credits are personal properties,[21] acquired during the time the loan or other credit transaction was executed. Therefore, credits loaned during the time of the marriage are presumed to be conjugal property.

Consequently, assuming that the four checks created a debt for which the spouses Carandang are liable, such credits are presumed to be conjugal property. There being no evidence to the contrary, such presumption subsists. As such, Quirino de Guzman, being a co-owner of specific partnership property,[22] is certainly a real party in interest. Dismissal on the ground of failure to state a cause of action, by reason that the suit was allegedly not brought by a real party in interest, is therefore unwarranted.

So now we come to the discussion concerning indispensable and necessary parties. When an indispensable party is not before the court, the action should likewise be dismissed.[23] The absence of an indispensable party renders all subsequent actuations of the court void, for want of authority to act, not only as to the absent parties but even as to those present.[24] On the other hand, the non-joinder of necessary parties do not result in the dismissal of the case. Instead, Section 9, Rule 3 of the Rules of Court provides for the consequences of such non-joinder:

Sec. 9. Non-joinder of necessary parties to be pleaded. – Whenever in any pleading in which a claim is asserted a necessary party is not joined, the pleader shall set forth his name, if known, and shall state why he is omitted. Should the court find the reason for the omission unmeritorious, it may order the inclusion of the omitted necessary party if jurisdiction over his person may be obtained.

The failure to comply with the order for his inclusion, without justifiable cause, shall be deemed a waiver of the claim against such party.

The non-inclusion of a necessary party does not prevent the court from proceeding in the action, and the judgment rendered therein shall be without prejudice to the rights of such necessary party.

Non-compliance with the order for the inclusion of a necessary party would not warrant the dismissal of the complaint. This is an exception to Section 3, Rule 17 which allows the dismissal of the complaint for failure to comply with an order of the court, as Section 9, Rule 3 specifically provides for the effect of such non-inclusion:

it shall not prevent the court from proceeding in the action, and the judgment rendered therein shall be without prejudice to the rights of such necessary party. Section 11, Rule 3 likewise provides that the non-joinder of parties is not a ground for the dismissal of the action.

Other than the indispensable and necessary parties, there is a third set of parties: the pro-forma parties, which are those who are required to be joined as co-parties in suits by or against another party as may be provided by the applicable substantive law or procedural rule.[25] An example is provided by Section 4, Rule 3 of the Rules of Court:

Sec. 4. Spouses as parties. – Husband and wife shall sue or be sued jointly, except as provided by law.

Pro-forma parties can either be indispensable, necessary or neither indispensable nor necessary. The third case occurs if, for example, a husband files an action to recover a property which he claims to be part of his exclusive property. The wife may have no legal interest in such property, but the rules nevertheless require that she be joined as a party.

In cases of pro-forma parties who are neither indispensable nor necessary, the general rule under Section 11, Rule 3 must be followed: such non-joinder is not a ground for dismissal. Hence, in a case concerning an action to recover a sum of money, we held that the failure to join the spouse in that case was not a jurisdictional defect.[26] The non-joinder of a spouse does not warrant dismissal as it is merely a formal requirement which may be cured by amendment.[27]

Conversely, in the instances that the pro-forma parties are also indispensable or necessary parties, the rules concerning indispensable or necessary parties, as the case may be, should be applied. Thus, dismissal is warranted only if the pro-forma party not joined in the complaint is an indispensable party.

Milagros de Guzman, being presumed to be a co-owner of the credits allegedly extended to the spouses Carandang, seems to be either an indispensable or a necessary party. If she is an indispensable party, dismissal would be proper. If she is merely a necessary party, dismissal is not warranted, whether or not there was an order for her inclusion in the complaint pursuant to Section 9, Rule 3.

Article 108 of the Family Code provides:

Art. 108. The conjugal partnership shall be governed by the rules on the contract of partnership in all that is not in conflict with what is expressly determined in this Chapter or by the spouses in their marriage settlements.

This provision is practically the same as the Civil Code provision it superceded:

Art. 147. The conjugal partnership shall be governed by the rules on the contract of partnership in all that is not in conflict with what is expressly determined in this Chapter.

In this connection, Article 1811 of the Civil Code provides that "[a] partner is a co-owner with the other partners of specific partnership property." Taken with the presumption of the conjugal nature of the funds used to finance the four checks used to pay for petitioners' stock subscriptions, and with the presumption that the credits themselves are part of conjugal funds, Article 1811 makes Quirino and Milagros de Guzman co-owners of the alleged credit.

Being co-owners of the alleged credit, Quirino and Milagros de Guzman may separately bring an action for the recovery thereof. In the fairly recent cases of *Baloloy v. Hular*[28] and *Adlawan v. Adlawan*,[29] we held that, in a co-ownership, co-owners may bring actions for the recovery of co-owned property without the necessity of joining all the other co-owners as co-plaintiffs because the suit is presumed to have been filed for the benefit of his co-owners. In the latter case and in that of *De Guia v. Court of Appeals*,[30] we also held that Article 487 of

the Civil Code, which provides that any of the co-owners may bring an action for ejectment, covers all kinds of action for the recovery of possession.[31]

In sum, in suits to recover properties, all co-owners are real parties in interest. However, pursuant to Article 487 of the Civil Code and relevant jurisprudence, any one of them may bring an action, any kind of action, for the recovery of co-owned properties. Therefore, only one of the co-owners, namely the co-owner who filed the suit for the recovery of the co-owned property, is an indispensable party thereto. The other co-owners are not indispensable parties. They are not even necessary parties, for a complete relief can be accorded in the suit even without their participation, since the suit is presumed to have been filed for the benefit of all co-owners.[32]

We therefore hold that Milagros de Guzman is not an indispensable party in the action for the recovery of the allegedly loaned money to the spouses Carandang. As such, she need not have been impleaded in said suit, and dismissal of the suit is not warranted by her not being a party thereto.

Whether or not respondents were able to
prove the loan sought to be collected from
petitioners

In the second and third issues presented by the spouses Carandang, they claim that the de Guzmans failed to prove the alleged loan for which the spouses Carandang were held liable. As previously stated, spouses Quirino and Milagros de Guzman paid for the stock subscriptions of the spouses Carandang, amounting to P336,375.00. The de Guzmans claim that these payments were in the form of loans and/or advances and it was agreed upon between the late Quirino de Guzman, Sr. and the spouses Carandang that the latter would repay him. Petitioners, on the other hand, argue that there was an oral pre-incorporation agreement wherein it was agreed that Arcadio Carandang would always maintain his 46% equity participation in the corporation even if the capital structures were increased, and that Quirino de Guzman would personally pay the equity shares/stock subscriptions of Arcadio Carandang with no cost to the latter.

On this main issue, the Court of Appeals held:

[The spouses Carandang] aver in its ninth assigned error that [the de Guzmans] failed to prove by preponderance of evidence, either the existence of the purported loan or the non-payment thereof.

Simply put, preponderance of evidence means that the evidence as a whole adduced by one side is superior to that of the other. The concept of preponderance of evidence refers to evidence that is of greater weight, or more convincing, than that which is offered in opposition to it; it means probability of truth.

[The spouses Carandang] admitted that it was indeed [the de Guzmans] who paid their stock subscriptions and their reason for not reimbursing the latter is the alleged pre-incorporation agreement, to which they offer no clear proof as to its existence.

It is a basic rule in evidence that each party must prove his affirmative allegation. Thus, the plaintiff or complainant has to prove his affirmative allegations in the complaints and the defendant or respondent has to prove the affirmative allegations in his affirmative defenses and counterclaims.[33]

The spouses Carandang, however, insist that the de Guzmans have not proven the loan itself, having presented evidence only of the payment in favor of the Carandang. They claim:

It is an undeniable fact that payment is not equivalent to a loan. For instance, if Mr. "A" decides to pay for Mr. "B's" obligation, that payment by Mr. "A" cannot, by any stretch of imagination, possibly mean that there is now a loan by Mr. "B" to Mr. "A". There is a possibility that such payment by Mr. "A" is purely out of generosity or that there is a mutual agreement between them. As applied to the instant case, that mutual

agreement is the pre-incorporation agreement (supra) existing between Mr. de Guzman and the petitioners --- to the effect that the former shall be responsible for paying stock subscriptions of the latter. Thus, when Mr. de Guzman paid for the stock subscriptions of the petitioners, there was no loan to speak of, but only a compliance with the pre-incorporation agreement.[34]

The spouses Carandang are mistaken. If indeed a Mr. "A" decides to pay for a Mr. "B's" obligation, the presumption is that Mr. "B" is indebted to Mr. "A" for such amount that has been paid. This is pursuant to Articles 1236 and 1237 of the Civil Code, which provide:

Art. 1236. The creditor is not bound to accept payment or performance by a third person who has no interest in the fulfillment of the obligation, unless there is a stipulation to the contrary.

Whoever pays for another may demand from the debtor what he has paid, except that if he paid without the knowledge or against the will of the debtor, he can recover only insofar as the payment has been beneficial to the debtor.

Art. 1237. Whoever pays on behalf of the debtor without the knowledge or against the will of the latter, cannot compel the creditor to subrogate him in his rights, such as those arising from a mortgage, guarantee, or penalty.

Articles 1236 and 1237 are clear that, even in cases where the debtor has no knowledge of payment by a third person, and even in cases where the third person paid against the will of the debtor, such payment would produce a debt in favor of the paying third person. In fact, the only consequences for the failure to inform or get the consent of the debtor are the following: (1) the third person can recover only insofar as the payment has been beneficial to the debtor; and (2) the third person is not subrogated to the rights of the creditor, such as those arising from a mortgage, guarantee or penalty.[35]

We say, however, that this is merely a presumption. By virtue of the parties' freedom to contract, the parties could stipulate otherwise and thus, as suggested by the spouses Carandang, there is indeed a possibility that such payment by Mr. "A" was purely out of generosity or that there was a mutual agreement between them. But such mutual agreement, being an exception to presumed course of events as laid down by Articles 1236 and 1237, must be adequately proven.

The de Guzmans have successfully proven their payment of the spouses Carandang's stock subscriptions. These payments were, in fact, admitted by the spouses Carandang. Consequently, it is now up to the spouses Carandang to prove the existence of the pre-incorporation agreement that was their defense to the purported loan.

Unfortunately for the spouses Carandang, the only testimony which touched on the existence and substance of the pre-incorporation agreement, that of petitioner Arcadio Carandang, was stricken off the record because he did not submit himself to a cross-examination of the opposing party. On the other hand, the testimonies of Romeo Saavedra,[36] Roberto S. Carandang,[37] Gertrudes Z. Esteban,[38] Ceferino Basilio,[39] and Ma. Luisa Carandang[40] touched on matters other than the existence and substance of the pre-incorporation agreement. So aside from the fact that these witnesses had no personal knowledge as to the alleged existence of the pre-incorporation agreement, the testimonies of these witnesses did not even mention the existence of a pre-incorporation agreement.

Worse, the testimonies of petitioners Arcadio Carandang and Ma. Luisa Carandang even contradicted the existence of a pre-incorporation agreement because when they were asked by their counsel regarding the matter of the check payments made by the late Quirino A. de Guzman, Sr. in their behalf, they said that they had already paid for it thereby negating their own defense that there was a pre-incorporation agreement excusing themselves from paying Mr. de Guzman the amounts he advanced or loaned to them. This basic and irrefutable fact can be gleaned from their testimonies which the private respondents are quoting for easy reference:

a. With respect to the testimony of Ma. Luisa Carandang

Q

Now, can you tell this Honorable Court how do you feel with respect to the Complaint of the plaintiff in this case charging you that you paid for this year and asking enough to paid (sic) your tax?

A

We have paid already, so, we are not liable for anything payment (sic).[41]

b. With respect to the testimony of Arcadio Carandang

"Q:

How much?

A:

P40,000.00 to P50,000.00 per month.

"Q:

The plaintiff also claimed thru witness Edgar Ragasa, that there were receipts issued for the payment of your shares; which receipts were marked as Exhibits "G" to "L" (Plaintiff).

I'm showing to you these receipts so marked by the plaintiff as their exhibits which were issued in the name of Ma. Luisa Carandang, your wife; and also, Arcadio M. Carandang. Will you please go over this Official Receipt and state for the records, who made for the payment stated in these receipts in your name?

A:

I paid for those shares."[42]

There being no testimony or documentary evidence proving the existence of the pre-incorporation agreement, the spouses Carandang are forced to rely upon an alleged admission by the original plaintiff of the existence of the pre-incorporation agreement.

Petitioners claim that the late Quirino A. de Guzman, Sr. had admitted the existence of the pre-incorporation agreement by virtue of paragraphs 13 and 14 of their Answer and paragraph 4 of private respondents' Reply.

Paragraphs 13 and 14 of petitioners' Answer dated 7 July 1992 state in full:

- Sometime in November, 1973 or thereabout, herein plaintiff invited defendant Arcadio M. Carandang to a joint venture by pooling together their technical expertise, equipments, financial resources and franchise. Plaintiff proposed to defendant and mutually agreed on the following:
- That they would organize a corporation known as Mabuhay Broadcasting Systems, Inc.
- Considering the technical expertise and talent of defendant Arcadio M. Carandang and his new equipments he bought, and his skill in repairing and modifying radio/communication equipments into high proficiency, said defendant would have an equity participation in the corporation of 46%, and plaintiff 54% because of his

financial resources and franchise.

- That defendant would always maintain his 46% equity participation in the corporation even if the capital structures are increased, and that plaintiff would personally pay the equity shares/stock subscriptions of defendant with no cost to the latter.
- That because of defendant's expertise in the trade including the marketing aspects, he would be the President and General Manager, and plaintiff the Chairman of the Board.
- That considering their past and trustworthy relations, they would maintain such relations in the joint venture without any mental reservation for their common benefit and success of the business.
- Having mutually agreed on the above arrangements, the single proprietorship of plaintiff was immediately spun-off into a corporation now known as Mabuhay Broadcasting System, Inc. The incorporators are plaintiff and his family members/nominees controlling jointly 54% of the stocks and defendant Arcadio M. Carandang controlling singly 46% as previously agreed.[43]

Meanwhile, paragraphs 3 and 4 of private respondents' Reply dated 29 July 1992 state in full:

- Plaintiffs admits the allegation in paragraph 13.1 of the Answer only insofar the plaintiff and defendant Arcadio M. Carandang organized a corporation known as Mabuhay Broadcasting Systems, Inc. Plaintiff specifically denies the other allegations in paragraph 13 of the Answer, the same being devoid of any legal or factual bases. The truth of the matter is that defendant Arcadio M. Carandang was not able to pay plaintiff the agreed amount of the lease for a number of months forcing the plaintiff to terminate lease. Additionally, the records would show that it was the defendant Arcadio M. Carandang who proposed a joint venture with the plaintiff.

It appears that plaintiff agreed to the formation of the corporation principally because of a directive of then President Marcos indicating the need to broaden the ownership of radio broadcasting stations. The plaintiff owned the franchise, the radio transmitter, the antenna tower, the building containing the radio transmitter and other equipment. Verily, he would be placed in a great disadvantage if he would still have to personally pay for the shares of defendant Arcadio M. Carandang.

- Plaintiff admits the allegations in paragraph 14 of the Answer.[44]

In effect, the spouses Carandang are relying on the fact that Quirino de Guzman stated that he admitted paragraph 14 of the Answer, which incidentally contained the opening clause "(h)aving mutually agreed on the above arrangements, x x x."

Admissions, however, should be clear and unambiguous. This purported admission by Quirino de Guzman reeks of ambiguity, as the clause "(h)aving mutually agreed on the above arrangements," seems to be a mere introduction to the statement that the single proprietorship of Quirino de Guzman had been converted into a corporation. If Quirino de Guzman had meant to admit paragraph 13.3, he could have easily said so, as he did the other paragraphs he categorically admitted. Instead, Quirino de Guzman expressly stated the opposite: that "(p)laintiff specifically denies the other allegations of paragraph 13 of the Answer." [45] The Reply furthermore states that the only portion of paragraph 13 which Quirino de Guzman had admitted is paragraph 13.1, and only insofar as it said that Quirino de Guzman and Arcadio Carandang organized Mabuhay Broadcasting Systems, Inc.[46]

All the foregoing considered, we hold that Quirino de Guzman had not admitted the alleged pre-incorporation agreement. As there was no admission, and as the testimony of Arcadio Carandang was stricken off the record, we are constrained to rule that there was no pre-incorporation agreement rendering Quirino de Guzman liable for the spouses Carandang's stock subscription. The payment by the spouses de Guzman of the stock subscriptions of

the spouses Carandang are therefore by way of loan which the spouses Carandang are liable to pay.

Whether or not the liability of the spouses Carandang is joint and solidary

Finally, the Court of Appeals also upheld the RTC Decision insofar as it decreed a solidary liability. According to the Court of Appeals:

With regards (sic) the tenth assigned error, [the spouses Carandang] contend that:

"There is absolutely no evidence, testimonial or documentary, showing that the purported obligation of [the spouses Carandang] is joint and solidary. x x x

"Furthermore, the purported obligation of [the spouses Carandang] does not at all qualify as one of the obligations required by law to be solidary x x x."

It is apparent from the facts of the case that [the spouses Carandang] were married way before the effectivity of the Family Code hence; their property regime is conjugal partnership under the Civil Code.

It must be noted that for marriages governed by the rules of conjugal partnership of gains, an obligation entered into by the husband and wife is chargeable against their conjugal partnership and it is the partnership, which is primarily bound for its repayment. Thus, when the spouses are sued for the enforcement of the obligation entered into by them, they are being impleaded in their capacity as representatives of the conjugal partnership and not as independent debtors, such that the concept of joint and solidary liability, as between them, does not apply.[47]

The Court of Appeals is correct insofar as it held that when the spouses are sued for the enforcement of the obligation entered into by them, they are being impleaded in their capacity as representatives of the conjugal partnership and not as independent debtors. Hence, either of them may be sued for the whole amount, similar to that of a solidary liability, although the amount is chargeable against their conjugal partnership property. Thus, in the case cited by the Court of Appeals, *Alipio v. Court of Appeals*,^[48] the two sets of defendant-spouses therein were held liable for P25,300.00 each, chargeable to their respective conjugal partnerships.

WHEREFORE, the Decision of the Court of Appeals, affirming the judgment rendered against the spouses Carandang, is hereby **AFFIRMED** with the following **MODIFICATION**: The spouses Carandang are **ORDERED** to pay the following amounts from their conjugal partnership properties:

- (1) P336,375.00 representing the spouses Carandang's loan to Quirino de Guzman; and
- (2) Interest on the preceding amount at the rate of twelve percent (12%) per annum from 5 June 1992 when the complaint was filed until the principal amount can be fully paid; and
- (3) P20,000.00 as attorney's fees.

No costs.

SO ORDERED.

Panganiban, C.J., (Chairperson), Ynares-Santiago, Austria-Martinez, and Callejo, Sr., JJ., concur.

[1] Penned by Associate Justice Jose L. Sabio, Jr. with Associate Justices B.A. Adefuin-de la Cruz and Hakim S. Abdulwahid, concurring; rollo, pp. 46-56.

[2] Rollo, p. 55

- [3] Id. at 57-58.
- [4] Id. at 360-361.
- [5] G.R. Nos. L-42699 & L-42709, 26 May 1981, 104 SCRA 534.
- [6] 104 Phil. 143 (1958).
- [7] Vda. de Haberer v. Court of Appeals, *supra* note 5 at 542.
- [8] Ferreria v. Vda. De Gonzales, *supra* note 6 at 149.
- [9] Zamora v. Court of Appeals, G.R. No. 78206, 19 March 1990, 183 SCRA 279, 283-284.
- [10] Salic v. COMELEC, G.R. Nos. 157007 & 157015, 17 March 2004, 425 SCRA 735, 754.
- [11] See Manila Railroad Co. v. Attorney-General, 20 Phil. 523, 535 ((1911).
- [12] Vda. De Salazar v. Court of Appeals, 320 Phil. 373, 377 (1995).
- [13] 77 Phil. 16 (1946).
- [14] Travel Wide Associated Sales (Phils.), Inc. v. Court of Appeals, G.R. No. 77356, 15 July 1991, 199 SCRA 205.
- [15] RULES OF COURT, Rule 3, Section 2.
- [16] Id., Section 7.
- [17] RULES OF COURT, Rule 3, Section 8.
- [18] Travel Wide Associated Sales (Phils.), Inc. v. Court of Appeals, *supra* note 14.
- [19] CIVIL CODE, Article 118.
- [20] FAMILY CODE, Article 116; CIVIL CODE, Article 160.
- [21] CIVIL CODE, Article 417 provides:
- "The following are also considered as personal property:
- (1) Obligations and actions which have for their object movables and demandable sums, and
- (2) Shares of stock of agricultural, commercial and industrial entities, although they may have real estate."
- According to the eminent civilist Arturo M. Tolentino, the term "obligations" in this article really means credits, and includes all kinds of credits. (Tolentino, Commentaries and Jurisprudence on the Civil Code of the Philippines, Vol. II, 1992 Ed., p. 25.) Black's Law Dictionary defines credit as "(t)he correlative of a debt; that is, a debt considered from the creditor's standpoint, or that is incoming or due to one." (Black's Law Dictionary, Sixth Ed., p. 367.)
- [22] CIVIL CODE, Article 1811, in connection with Family Code, Article 108.
- [23] People v. Rodriguez, 106 Phil. 325, 327 (1959); Arcelona v. Court of Appeals, G.R. No. 102900, 2 October 1997, 280 SCRA 20, 37-38.
- [24] Lim Tanhu v. Ramolete, G.R. No. L-40098, 29 August 1975, 66 SCRA 425, 448.
- [25] Regalado, COMPENDIUM, Vol. I, p. 78 (1999 Ed.).

[26] Pacquing v. Marquez, 99 Phil. 141 (1956).

[27] Uy, Jr. v. Court of Appeals, G.R. No. 83897, 9 November 1990, 191 SCRA 275, 283.

[28] G.R. No. 157767, 9 September 2004, 438 SCRA 80, 90-91.

[29] G.R. No. 161916, 20 January 2006, 479 SCRA 275, 283.

[30] G.R. No. 120864, 8 October 2003, 413 SCRA 114, 125.

[31] Adlawan v. Adlawan, *supra* note 29 at 283.

[32] Take note, however, that this applies only with respect to co-owners as party-plaintiffs, by virtue of Article 487 of the Civil Code. As party-defendants, the same co-owners are all indispensable parties. (See Arcelona v. Court of Appeals, G.R. No. 102900, 2 October 1997, 280 SCRA 20, 39.

[33] Rollo, pp. 53-54.

[34] *Id.* at 369.

[35] See also Article 1425.

Art. 1425. When without the knowledge or against the will of the debtor, a third person pays a debt which the obligor is not legally bound to pay because the action thereon has prescribed, but the debtor later voluntarily reimburses the third person, the obligor cannot recover what he has paid.

[36] TSN, 11 March 1997.

[37] TSN, 11 September 1997.

[38] TSN, 16 September 1997.

[39] TSN, 11 September 1997.

[40] TSN, 26 June 1997.

[41] TSN, 26 June 1997, p. 45.

[42] TSN, 6 September 1996, pp. 37-38.

[43] Records, pp. 15-16.

[44] Records, p. 31.

[45] *Id.* at 31.

[46] *Id.* at 31.

[47] Rollo, p. 54, citing Alipio v. Court of Appeals, G.R. No. 134100, 29 September 2000, 341 SCRA 441, 448.

[48] *Id.*

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.