

## THIRD DIVISION

**[ G.R. No. 203133, February 18, 2015 ]**

**YULIM INTERNATIONAL COMPANY LTD., JAMES YU, JONATHAN YU, AND ALMERICK TIENG LIM, PETITIONERS, VS. INTERNATIONAL EXCHANGE BANK (NOW UNION BANK OF THE PHILIPPINES), RESPONDENT.**

### D E C I S I O N

**REYES, J.:**

In the assailed Decision<sup>[1]</sup> dated February 1, 2012 in CA-G.R. CV No. 95522, the Court of Appeals (CA) modified the Decision<sup>[2]</sup> dated December 21, 2009 of the Regional Trial Court (RTC) of Makati City, Branch 145, in Civil Case No. 02-749, holding that James Yu (James), Jonathan Yu (Jonathan) and Almerick Tieng Lim (Almerick), who were capitalist partners in Yulim International Company Ltd. (Yulim), collectively called as the petitioners, were jointly and severally liable with Yulim for its loan obligations with respondent International Exchange Bank (iBank).

#### The Facts

On June 2, 2000, iBank, a commercial bank, granted Yulim, a domestic partnership, a credit facility in the form of an Omnibus Loan Line for P5,000,000.00, as evidenced by a Credit Agreement<sup>[3]</sup> which was secured by a Chattel Mortgage<sup>[4]</sup> over Yulim's inventories in its merchandise warehouse at 106 4<sup>th</sup> Street, 9th Avenue, Caloocan City. As further guarantee, the partners, namely, James, Jonathan and Almerick, executed a Continuing Surety Agreement<sup>[5]</sup> in favor of iBank.

Yulim availed of its aforesaid credit facility with iBank, as follows:

| Promissory Note No. | Face Value     | PN Date    | Date of Maturity          |
|---------------------|----------------|------------|---------------------------|
| 2110005852          | P 1,298,926.00 | 10/26/2000 | 01/29/2001                |
| 2110006026          | 1,152,963.00   | 11/18/2000 | 02/05/2001                |
| 2110006344          | 499,890.00     | 12/04/2000 | 03/12/2001                |
| 2110006557          | 798,010.00     | 12/18/2000 | 04/23/2001                |
| 2110100189          | 496,521.00     | 01/11/2001 | 05/07/2001 <sup>[6]</sup> |

The above promissory notes (PN) were later consolidated under a single promissory note, PN No. SADDK001014188, for P4,246,310.00, to mature on February 28, 2002.<sup>[7]</sup> Yulim defaulted on the said note. On April 5, 2002, iBank sent demand letters to Yulim, through its President, James, and through Almerick,<sup>[8]</sup> but without success. iBank then filed a Complaint for Sum of Money with Replevin<sup>[9]</sup> against

Yulim and its sureties. On August 8, 2002, the Court granted the application for a writ of replevin. Pursuant to the Sheriff's Certificate of Sale dated November 7, 2002,<sup>[10]</sup> the items seized from Yulim's warehouse were worth only P140,000.00, not P500,000.00 as the petitioners have insisted.<sup>[11]</sup>

On October 2, 2002, the petitioners moved to dismiss the complaint insisting that their loan had been fully paid after they assigned to iBank their Condominium Unit No. 141, with parking space, at 20 Landsbergh Place in Tomas Morato Avenue, Quezon City.<sup>[12]</sup> They claimed that while the pre-selling value of the condominium unit was P3.3 Million, its market value has since risen to P5.5 Million.<sup>[13]</sup> The RTC, however, did not entertain the motion to dismiss for non-compliance with Rule 15 of the Rules of Court.

On May 16, 2006, the petitioners filed their Answer reiterating that they have paid their loan by way of assignment of a condominium unit to iBank, as well as insisting that iBank's penalties and charges were exorbitant, oppressive and unconscionable.<sup>[14]</sup>

### **Ruling of the RTC**

After trial on the merits, the RTC rendered judgment on December 21, 2009, the dispositive portion of which reads, as follows:

**WHEREFORE**, in view of the foregoing considerations, the Court finds the individual defendants James Yu, Jonathan Yu and Almerick Tieng Lim, not liable to the plaintiff, iBank, hence the complaint against them is hereby DISMISSED for insufficiency of evidence, without pronouncement as to cost.

This court, however, finds defendant corporation Yulim International Company Ltd. liable; and it hereby orders defendant corporation to pay plaintiff the sum of P4,246,310.00 with interest at 16.50% per annum from February 28, 2002 until fully paid plus cost of suit.

The counterclaims of defendants against plaintiff iBank are hereby DISMISSED for insufficiency of evidence.

**SO ORDERED.**<sup>[15]</sup>

Thus, the RTC ordered Yulim alone to pay iBank the amount of P4,246,310.00, plus interest at 16.50% *per annum* from February 28, 2002 until fully paid, plus costs of suit, and dismissed the complaint against petitioners James, Jonathan and Almerick, stating that there was no iota of evidence that the loan proceeds benefited their families.<sup>[16]</sup>

The petitioners moved for reconsideration on January 12, 2010;<sup>[17]</sup> iBank on January 19, 2010 likewise filed a motion for partial reconsideration.<sup>[18]</sup> In its Joint Order<sup>[19]</sup> dated March 8, 2010, the RTC denied both motions.

## **Ruling of the CA**

On March 23, 2010, Yulim filed a Notice of Partial Appeal, followed on March 30, 2010 by iBank with a Notice of Appeal.

Yulim interposed the following as errors of the court *a quo*:

- I. THE LOWER COURT ERRED IN ORDERING [YULIM] TO PAY [iBANK] THE AMOUNT OF P4,246,310.00 WITH INTEREST AT 16.5% PER ANNUM FROM FEBRUARY 28, 2002 UNTIL FULLY PAID.
- II. THE LOWER COURT ERRED IN NOT ORDERING [iBANK] TO PAY ATTORNEY'S FEES, MORAL DAMAGES AND EXEMPLARY DAMAGES.  
[20]

For its part, iBank raised the following as errors of the RTC:

- I. THE TRIAL COURT ERRED IN NOT HOLDING INDIVIDUAL [PETITIONERS JAMES, JONATHAN AND ALMERICK] SOLIDARILY LIABLE WITH [YULIM] ON THE BASIS OF THE CONTINUING SURETYSHIP AGREEMENT EXECUTED BY THEM.
- II. THE TRIAL COURT ERRED IN NOT HOLDING ALL THE [PETITIONERS] LIABLE FOR PENALTY CHARGES UNDER THE CREDIT AGREEMENT AND PROMISSORY NOTES SUED UPON.
- III. THE TRIAL COURT ERRED IN NOT HOLDING [THE PETITIONERS] LIABLE TO [iBANK] FOR ATTORNEY'S FEES AND INDIVIDUAL [PETITIONERS] JOINTLY AND SEVERALLY LIABLE WITH [YULIM] FOR COSTS OF SUIT INCURRED BY [iBANK] IN ORDER TO PROTECT ITS RIGHTS.  
[21]

Chiefly, the factual issue on appeal to the CA, raised by petitioners James, Jonathan and Almerick, was whether Yulim's loans have in fact been extinguished with the execution of a Deed of Assignment of their condominium unit in favor of iBank, while the corollary legal issue, raised by iBank, was whether they should be held solidarily liable with Yulim for its loans and other obligations to iBank.

The CA ruled that the petitioners failed to prove that they have already paid Yulim's consolidated loan obligations totaling P4,246,310.00, for which it issued to iBank PN No. SADDK001014188 for the said amount. It held that the existence of a debt having been established, the burden to prove with legal certainty that it has been extinguished by payment devolves upon the debtors who have offered such defense. The CA found the records bereft of any evidence to show that Yulim had fully settled its obligation to iBank, further stating that the so-called assignment by Yulim of its condominium unit to iBank was nothing but a mere temporary arrangement to provide security for its loan pending the subsequent execution of a real estate mortgage. Specifically, the CA found nothing in the Deed of Assignment which could signify that iBank had accepted the said property as full payment of the petitioners'

loan. The CA cited *Manila Banking Corporation v. Teodoro, Jr.*<sup>[22]</sup> which held that an assignment to guarantee an obligation is in effect a mortgage and not an absolute conveyance of title which confers ownership on the assignee.

Concerning the solidary liability of petitioners James, Jonathan and Almerick, the CA disagreed with the trial court's ruling that it must first be shown that the proceeds of the loan redounded to the benefit of the family of the individual petitioners before they can be held liable. Article 161 of the Civil Code and Article 121 of the Family Code cited by the RTC apply only where the liability is sought to be enforced against the conjugal partnership itself. In this case, regardless of whether the loan benefited the family of the individual petitioners, they signed as sureties, and iBank sought to enforce the loan obligation against them as sureties of Yulim.

Thus, the appellate court granted the appeal of iBank, and denied that of the petitioners, as follows:

**WHEREFORE**, the foregoing considered, [iBank's] appeal is **PARTLY GRANTED** while [the petitioners'] appeal is **DENIED**. Accordingly, the appealed decision is hereby **MODIFIED** in that [petitioners] James Yu, Jonathan Yu and A[l]merick Tieng Lim are hereby held jointly and severally liable with defendant-appellant Yulim for the payment of the monetary awards. The rest of the assailed decision is **AFFIRMED**.

**SO ORDERED.**<sup>[23]</sup>

### **Petition for Review to the Supreme Court**

In the instant petition, the following assigned errors are before this Court:

1. The CA erred in ordering petitioners James, Jonathan and Almerick jointly and severally liable with petitioner Yulim to pay iBank the amount of P4,246,310.00 with interest at 16.5% *per annum* from February 28, 2002 until fully paid.
2. The CA erred in not ordering iBank to pay the petitioners moral damages, exemplary damages, and attorney's fees.<sup>[24]</sup>

The petitioners insist that they have paid their loan to iBank. They maintain that the letter of iBank to them dated May 4, 2001, which "expressly stipulated that the petitioners shall execute a Deed of Assignment over one condominium unit No. 141, 3rd Floor and a parking slot located at 20 Landsbergh Place, Tomas Morato Avenue, Quezon City," was with the understanding that the Deed of Assignment, which they in fact executed, delivering also to iBank all the pertinent supporting documents, would serve to totally extinguish their loan obligation to iBank. In particular, the petitioners state that it was their understanding that upon approval by iBank of their Deed of Assignment, the same "shall be considered as full and final payment of the petitioners' obligation." They further assert that iBank's May 4, 2001 letter expressly carried the said approval.

The petitioner invoked Article 1255 of the Civil Code, on **payment by cession**, which provides:

Art. 1255. The debtor may cede or assign his property to his creditors in payment of his debts. This cession, unless there is stipulation to the contrary, shall only release the debtor from responsibility for the net proceeds of the thing assigned. The agreements which, on the effect of the cession, are made between the debtor and his creditors shall be governed by special laws.

### **Ruling of the Court**

The petition is bereft of merit.

Firstly, the individual petitioners do not deny that they executed the Continuing Surety Agreement, wherein they *"jointly and severally with the PRINCIPAL [Yulim], hereby unconditionally and irrevocably guarantee full and complete payment when due, whether at stated maturity, by acceleration, or otherwise, of any and all credit accommodations that have been granted"* to Yulim by iBank, including interest, fees, penalty and other charges.<sup>[25]</sup> Under Article 2047 of the Civil Code, these words are said to describe a contract of suretyship. It states:

Art. 2047. By guaranty a person, called the guarantor, binds himself to the creditor to fulfill the obligation of the principal debtor in case the latter should fail to do so.

If a person binds himself solidarily with the principal debtor, the provisions of Section 4, Chapter 3, Title I of this Book shall be observed. In such case the contract is called a suretyship.

In a contract of suretyship, one lends his credit by joining in the principal debtor's obligation so as to render himself directly and primarily responsible with him without reference to the solvency of the principal.<sup>[26]</sup> According to the above Article, if a person binds himself solidarily with the principal debtor, the provisions of Articles 1207 to 1222, or Section 4, Chapter 3, Title I, Book IV of the Civil Code on joint and solidary obligations, shall be observed. Thus, where there is a concurrence of two or more creditors or of two or more debtors in one and the same obligation, Article 1207 provides that among them, *"[t]here is a solidary liability only when the obligation expressly so states, or when the law or the nature of the obligation requires solidarity."*

"A surety is considered in law as being the same party as the debtor in relation to whatever is adjudged touching the obligation of the latter, and their liabilities are interwoven as to be inseparable."<sup>[27]</sup> And it is well settled that when the obligor or obligors undertake to be "jointly and severally" liable, it means that the obligation is solidary,<sup>[28]</sup> as in this case. There can be no mistaking the same import of Article I