

THIRD DIVISION

[G.R. NO. 137232, June 29, 2005]

ROSARIO TEXTILE MILLS CORPORATION AND EDILBERTO YUJUICO, PETITIONERS, VS. HOME BANKERS SAVINGS AND TRUST COMPANY, RESPONDENT.

DECISION

SANDOVAL-GUTIERREZ, J.:

For our resolution is the petition for review on *certiorari* assailing the Decision^[1] of the Court of Appeals dated March 31, 1998 in CA-G.R. CV No. 48708 and its Resolution dated January 12, 1999.

The facts of the case as found by the Court of Appeals are:

"Sometime in 1989, Rosario Textile Mills Corporation (RTMC) applied from Home Bankers Savings & Trust Co. for an Omnibus Credit Line for P10 million. The bank approved RTMC's credit line but for only P8 million. The bank notified RTMC of the grant of the said loan thru a letter dated March 2, 1989 which contains terms and conditions conformed by RTMC thru Edilberto V. Yujuico. On March 3, 1989, Yujuico signed a Surety Agreement in favor of the bank, in which he bound himself jointly and severally with RTMC for the payment of all RTMC's indebtedness to the bank from 1989 to 1990. RTMC availed of the credit line by making numerous drawdowns, each drawdown being covered by a separate promissory note and trust receipt. RTMC, represented by Yujuico, executed in favor of the bank a total of eleven (11) promissory notes.

Despite the lapse of the respective due dates under the promissory notes and notwithstanding the bank's demand letters, RTMC failed to pay its loans. Hence, on January 22, 1993, the bank filed a complaint for sum of money against RTMC and Yujuico before the Regional Trial Court, Br. 16, Manila.

In their answer (OR, pp. 44-47), RTMC and Yujuico contend that they should be absolved from liability. They claimed that although the grant of the credit line and the execution of the suretyship agreement are admitted, the bank gave assurance that the suretyship agreement was merely a formality under which Yujuico will not be personally liable. They argue that the importation of raw materials under the credit line was with a grant of option to them to turn-over to the bank the imported raw materials should these fail to meet their manufacturing requirements. RTMC offered to make such turn-over since the imported materials did not conform to the required specifications. However, the bank refused to accept the same, until the materials were destroyed by a fire which

gutted down RTMC's premises.

For failure of the parties to amicably settle the case, trial on the merits proceeded. After the trial, the Court a quo rendered a decision in favor of the bank, the decretal part of which reads:

'WHEREFORE, PREMISES CONSIDERED, judgment is hereby rendered in favor of plaintiff and against defendants who are ordered to pay jointly and severally in favor of plaintiff, inclusive of stipulated 30% per annum interest and penalty of 3% per month until fully paid, under the following promissory notes:

90-1116	6-20-90	P737,088.25	9-18-90
		(maturity)	
90-1320	7-13-90	P650,000.00	10-11-90
90-1334	7-17-90	P422,500.00	10-15-90
90-1335	7-17-90	P422,500.00	10-15-90
90-1347	7-18-90	P795,000.00	10-16-90
90-1373	7-20-90	P715,900.00	10-18-90
90-1397	7-27-90	P773,500.00	10-20-90
90-1429	7-26-90	P425,750.00	10-24-90
90-1540	8-7-90	P720,984.00	11-5-90
90-1569	8-9-90	P209,433.75	11-8-90
90-0922	5-28-90	P747,780.00	8-26-90

The counterclaims of defendants are hereby DISMISSED.

SO ORDERED." (OR, p. 323; Rollo, p. 73)."[2]

Dissatisfied, RTMC and Yujuico, herein petitioners, appealed to the Court of Appeals, contending that under the trust receipt contracts between the parties, **they merely held the goods described therein in trust for respondent Home Bankers Savings and Trust Company (the bank) which owns the same.** Since the ownership of the goods remains with the bank, then it should bear the loss. With the destruction of the goods by fire, petitioners should have been relieved of any obligation to pay.

The Court of Appeals, however, affirmed the trial court's judgment, holding that the bank is merely the holder of the security for its advance payments to petitioners; and that the goods they purchased, through the credit line extended by the bank, belong to them and hold said goods at their own risk.

Petitioners then filed a motion for reconsideration but this was denied by the Appellate Court in its Resolution dated January 12, 1999.

Hence, this petition for review on certiorari ascribing to the Court of Appeals the following errors:

"I

THE HONORABLE COURT OF APPEALS ERRED IN NOT HOLDING THAT THE

ACTS OF THE PETITIONERS-DEFENDANTS WERE TANTAMOUNT TO A VALID AND EFFECTIVE TENDER OF THE GOODS TO THE RESPONDENT-PLAINTIFF.

II

THE HONORABLE COURT OF APPEALS ERRED IN NOT APPLYING THE DOCTRINE OF '*RES PERIT DOMINO*' IN THE CASE AT BAR CONSIDERING THE VALID AND EFFECTIVE TENDER OF THE DEFECTIVE RAW MATERIALS BY THE PETITIONERS-DEFENDANTS TO THE RESPONDENT-PLAINTIFF AND THE EXPRESS STIPULATION IN THEIR CONTRACT THAT OWNERSHIP OF THE GOODS REMAINS WITH THE RESPONDENT-PLAINTIFF.

III

THE HONORABLE COURT OF APPEALS VIOLATED ARTICLE 1370 OF THE CIVIL CODE AND THE LONG-STANDING JURISPRUDENCE THAT '*INTENTION OF THE PARTIES IS PRIMORDIAL*' IN ITS FAILURE TO UPHOLD THE INTENTION OF THE PARTIES THAT THE SURETY AGREEMENT WAS A MERE FORMALITY AND DID NOT INTEND TO HOLD PETITIONER YUJICO LIABLE UNDER THE SAME SURETY AGREEMENT.

IV

ASSUMING ARGUENDO THAT THE SURETYSHIP AGREEMENT WAS VALID AND EFFECTIVE, THE HONORABLE COURT OF APPEALS VIOLATED THE BASIC LEGAL PRECEPT THAT A SURETY IS NOT LIABLE UNLESS THE DEBTOR IS HIMSELF LIABLE.

V

THE HONORABLE COURT OF APPEALS VIOLATED THE PURPOSE OF TRUST RECEIPT LAW IN HOLDING THE PETITIONERS LIABLE TO THE RESPONDENT."

The above assigned errors boil down to the following issues: (1) whether the Court of Appeals erred in holding that petitioners are not relieved of their obligation to pay their loan after they tried to tender the goods to the bank which refused to accept the same, and which goods were subsequently lost in a fire; (2) whether the Court of Appeals erred when it ruled that petitioners are solidarily liable for the payment of their obligations to the bank; and (3) whether the Court of Appeals violated the Trust Receipts Law.

On the *first issue*, petitioners theorize that when petitioner RTMC imported the raw materials needed for its manufacture, using the credit line, it was merely acting on behalf of the bank, the true owner of the goods by virtue of the trust receipts. Hence, under the doctrine of *res perit domino*, the bank took the risk of the loss of said raw materials. RTMC's role in the transaction was that of end user of the raw materials and when it did not accept those materials as they did not meet the manufacturing requirements, RTMC made a valid and effective tender of the goods to the bank. Since the bank refused to accept the raw materials, RTMC stored them in its warehouse. When the warehouse and its contents were gutted by fire, petitioners' obligation to the bank was accordingly extinguished.