

FIRST DIVISION

[G.R. No. 228356, March 09, 2020]

MERIAN B. SANTIAGO, PETITIONER, VS. SPOUSES EDNA L. GARCIA AND BAYANI GARCIA, RESPONDENTS.

DECISION

REYES, J. JR., J.:

This Petition for Review on *Certiorari*^[1] under Rule 45 of the Rules of Court assails the Decision^[2] dated January 26, 2016 and Resolution^[3] dated November 11, 2016 of the Court of Appeals (CA) in CA-G.R. CV No. 101908. In dismissing petitioner's appeal, the CA ruled that the contractual relation between the parties is one of investment and, as such, entails risk on the part of the petitioner as investor. Finding petitioner to have invested her money, the CA ruled that she has no cause of action for the return of investment.

Facts

In November 2000, petitioner Merian B. Santiago (Merian) was enticed by respondent Edna L. Garcia (Edna) to invest money in the latter's lending business with a promise of a high return in terms of monthly interest ranging from 5% to 8%. The parties agreed that monthly interest shall be remitted by Edna to Merian and that the principal amount invested shall be returned to Merian upon demand.^[4] Neither of the parties, however, presented evidence to show that such agreement was reduced in writing.

Merian began investing several amounts from November 15, 2000 to June 30, 2003, reaching an aggregate amount of P1,569,000.00.^[5] Edna had remitted to Merian the amount of P877,000.00 as interest on said amounts. However, in December 2003, Edna defaulted in remitting to Merian the interest due from said investments. Despite demands, Edna failed to remit the interest to Merian.

Consequently, Merian, through her lawyer, sent a letter dated January 20, 2004 to Edna demanding for the return of Merian's total investment of P1,569,000.00.^[6] Merian also went to Edna's house where the latter agreed to pay the principal amount invested on a "pay when able" basis. On the same day, Edna paid Merian P15,000.00 in cash and P5,000.00 in gift cheque, for a total of P20,000.00.^[7] Merian then signed a receipt prepared by Edna wherein she acknowledged that the P20,000.00 constitutes partial payment for the principal amount of P1,569,000.00.

^[8] The acknowledgment receipt^[9] reads as follows:

This is to acknowledge receipt from Edna L. Garcia **partial payment from [the] principal** this 18th day of January 2004 the amount of [P]20,000 ([P] 15,000 cash and [P]5,000 gift cheque)

Signed
Me-anne Bernardo

[T]otal Principal
[P]1,569,000^[10] (emphasis supplied)

Because Merian learned that several other persons were likewise taken advantage of by Edna, Merian filed the complaint *a quo* on February 12, 2004, for sum of money with prayer for the issuance of a writ of preliminary attachment against spouses Edna L. Garcia and Bayani Garcia (spouses Garcia). In their Answer, spouses Garcia admitted the facts that Merian was enticed by Edna to invest in her lending business that will yield a high return in terms of monthly interest ranging from 5% to 8%, and that under said investment proposal, it was agreed that the interest earned shall be remitted by Edna to Merian on a monthly basis, while the principal amount shall be returned upon Merian's demand.^[11] Nevertheless, spouses Garcia sought for the dismissal of the complaint for lack of cause of action since the amounts given by Merian were investments, not loans.

The Regional Trial Court (RTC) rendered its decision finding that a partnership was formed between Merian and Edna – the former as capitalist partner and the latter as industrial partner. It ruled that a person who invested in a business which incurred losses cannot convert such investment into a loan.^[12] As such, the RTC dismissed Merian's complaint, and further ordered the payment of moral damages, attorney's fees, and costs of suit in favor of spouses Garcia.

When Merian's motion for reconsideration was denied, she appealed to the CA.

The CA disagreed with the RTC in its finding that a partnership was formed between Merian and Edna. The CA found that the money was given not as Merian's contribution or share in Edna's capital in the lending business, but as an investment that will earn interest in case of profit. Nevertheless, the CA agreed with the RTC that the complaint lacked cause of action as Merian was without legal right to recover her investment in case of losses, as to what happened to Edna's lending business, since an investment entails business risk. The CA thus affirmed the dismissal of Merian's complaint but deleted the award for moral damages, attorney's fees, and costs of suit.

Merian's motion for partial reconsideration met similar denial from the CA. Thus, this petition.

Issue

The sole issue raised for resolution is whether the CA erred in finding that the contractual relation between Merian and Edna is one of investment which entails the

assumption of business risk. Merian maintains that while she agreed to invest or place her money in Edna's lending business, it was their further agreement that the amount so invested will earn interest, and that the principal amount shall be returned to her upon demand.^[13]

Ruling of the Court

There is merit in the petition.

There is no dispute that Merian invested the total amount of P1,569,000.00 as this much was admitted by spouses Garcia in their answer to the complaint.^[14] The contention lies as to whether Edna is obligated to return the principal amount to Merian upon demand. In resolving the issue in the negative, the RTC held that a partnership was formed between Merian and Edna; while the CA held that the contractual relation between the parties was neither a partnership nor a contract of loan but was an investment that entailed business risk.

A partnership, a simple contract of loan, and an investment contract carry peculiar definitions and are governed by pertinent laws. The existence of a partnership, simple loan, or an investment contract should not, therefore, be inferred lightly, especially where any of its requisite elements are lacking.

The Court cannot subscribe to the view that Merian and Edna formed a partnership. By the contract of partnership two or more persons bind themselves to contribute money, property, or industry to a common fund, with the intention of dividing the profits among themselves.^[15] Partnership is essentially a result of an agreement or a contract, either express or implied, oral or in writing, between two or more persons. Here, there was neither allegation nor proof that Merian and Edna agreed to enter into a partnership for purposes of carrying out the lending business.

There was likewise no agreement for the sharing of profits, only that Merian expects to receive remittance of monthly interest from the amount she invested. At any rate, the receipt by a person of a share of the profits, or of a payment of a contingent amount in case of profits earned, is not a conclusive evidence of partnership. Article (Art.) 1769(3) of the Civil Code provides that "the sharing of gross returns does not of itself establish a partnership, whether or not the persons sharing them have a joint or common right or interest in any property from which the returns are derived".^[16] There must be an unmistakable intention to form a partnership which is lacking in this case.^[17] Most importantly, the facts do not disclose that there is mutual agency between Merian and Edna, that is, neither party alleged that she can bind by her acts the other, and can be bound by the acts of the other in the ordinary course of business.

The facts of the instant case do not support the conclusion that the parties entered into a contract of loan either. By a contract of simple loan, one of the parties delivers to another money upon the condition that the same amount of the same kind and quality shall be paid.^[18] A person who receives a loan of money acquires ownership thereof, and is bound to pay to the creditor an equal amount of the same kind and quality.^[19] Merian herself testified that Edna did not borrow money from her and