

FIRST DIVISION

[G.R. No. 226731, June 17, 2020]

CELLPAGE INTERNATIONAL CORPORATION, PETITIONER, VS. THE SOLID GUARANTY, INC., RESPONDENT.

DECISION

REYES, J. JR., J.:

This resolves the Petition^[1] for Review on *Certiorari* under Rule 45 of the Revised Rules of Court, seeking the reversal of the Decision^[2] dated June 9, 2016 and the Resolution^[3] dated August 25, 2016 issued by the Court of Appeals (CA) in CA-G.R. CV No. 100565.

The Facts

Cellpage International Corp. (Cellpage) approved Jomar Powerhouse Marketing Corporation's (JPMC) application for credit line for the purchase of cellcards, with a condition that JPMC will provide a good and sufficient bond to guaranty the payment of the purchases. In compliance with this condition, JPMC secured from The Solid Guaranty, Inc. (Solid Guaranty) the following surety bonds:

Surety Bond No. 007422	March 20,2002	P2,500,000.00
Surety Bond No. 00474	April 24, 2002	P2,500,000.00
Surety Bond No. 00748	May 6, 2002	P2,000,000.00

In August 2002, JPMC purchased cellcards amounting to Seven Million Two Thousand Six Hundred Pesos (P7,002,600.00) from Cellpage, as follows:

DATE	QUANTITY	INVOICE NO.	AMOUNT
08/08/02	1,000 pcs.	O35701	P 273,000.00
08/08/02	4,000 pcs.	O35713	P 1,092,000.00
08/09/02	4,000 pcs.	O35732	P 1,092,000.00
08/12/02	1,000 pcs.	O35790	P 273,000.00
08/13/02	1,000 pcs.	O35839	P 273,000.00
08/14/02	3,000 pcs.	O35864	P 819,000.00
08/14/02	3,000 pcs.	O35871	P 837,000.00
08/16/02	3,000 pcs.	O35904	P 837,000.00

08/20/02	900 pcs.	035972	P 251,100.00
08/22/02	3,000 pcs.	036028	P 837,000.00
08/23/02	500 pcs.	036045	P 139,500.00
08/24/02	1,000 pcs.	036061	P 279,000.00
TOTAL			P 7,002,600.00

In partial payment for its purchases, JPMC issued to Cellpage the following postdated checks:

BANK/BRANCH	CHECK NO.	DATE	AMOUNT
Security-Caloocan	992310	08/23/02	P 546,000.00
Security-Caloocan	992311	08/23/02	P 546,000.00
Security-Caloocan	992312	08/23/02	P 273,000.00
Security-Caloocan	992320	08/24/02	P 546,000.00
Security-Caloocan	992321	08/24/02	P 546,000.00
TOTAL			P2,457,000.00

When Cellpage presented these checks to the bank for payment, the same were all dishonored for being drawn against insufficient funds. Thus, Cellpage demanded from JPMC the full payment of its outstanding obligation, in the amount of P7,002,600.00, but the latter failed to pay. Cellpage also demanded from Solid Guaranty the payment of JPMC's obligation pursuant to the surety bonds issued by Solid Guaranty. Solid Guaranty, however, refused to accede to Cellpage's demand.

Thus, Cellpage filed a complaint for sum of money against JPMC and Solid Guaranty before the Regional Trial Court (RTC).

In the Decision dated January 3, 2012, the RTC ruled in favor of Cellpage and declared JPMC and Solid Guaranty jointly and solidarily liable to the former. The dispositive portion of this decision reads:

WHEREFORE, it appearing that the material allegations of the complaint had been established by clear, convincing and competent evidence, judgment is hereby rendered in favor of the plaintiff and against the defendants, ordering the latter to pay the former jointly and solidarily, the following amounts:

- 1) Seven Million Two Thousand Six Hundred Pesos (P7,002,66.00) (*sic*) plus twelve percent (12%) interest per annum computed from the date of last demand until fully paid;
- 2) Twenty Thousand Pesos (P20,000.00) as exemplary damages;
- 3) Twenty Thousand Pesos (P20,000.00) as reasonable attorney's fees; and

4) Costs of Suit.

SO ORDERED.^[4]

Solid Guaranty filed a motion for reconsideration, but the RTC denied the said motion in an Order dated December 19, 2012.

Aggrieved, Solid Guaranty filed its appeal before the CA, arguing that since a surety bond is a mere collateral or accessory agreement, the extent of the liability of Solid Guaranty is determined by the terms of the principal contract between JPMC and Cellpage. Since neither JPMC nor Cellpage submitted copies of said written agreement before or after the issuance of the surety bonds, Solid Guaranty argued that there can be no valid surety claim against it.

The CA found Solid Guaranty's appeal to be impressed with merit, and granted the same. The CA ruled that Cellpage cannot demand from Solid Guaranty the performance of the latter's obligation under the surety contract. In so ruling, this Court invoked the pronouncement in *First Lepanto-Taisho Insurance Corporation v. Chevron Philippines, Inc.*,^[5] where we applied strictly the terms and conditions of the surety contract which expressly states that a copy of the principal agreement must be attached and made an integral part of the surety contract.

The CA found that the surety bonds issued by Solid Guaranty insured the payment/remittance of the cost of products on credit by JPMC in accordance with the terms and conditions of the agreement it entered into with Cellpage. According to the CA, the word agreement pertains to the credit line agreement between JPMC and Cellpage. Applying the ruling in *First Lepanto*, the CA ruled that JPMC's failure to submit the written credit line agreement to Solid Guaranty, affected not the validity and effectivity of the surety bonds, but rather the right of the creditor, Cellpage, to demand from Solid Guaranty the performance of its obligation under the surety contract. The dispositive portion of the CA's Decision states:

WHEREFORE, the instant appeal is GRANTED. The Decision dated January 3, 2012 and Order dated December 19, 2012 of the Regional Trial Court, branch 102, Quezon City, in Civil Case No. Q-03-48797 are REVERSED and SET ASIDE and the plaintiff-appellee's Complaint AGAINST the Solid Guaranty, Inc. is DISMISSED.

SO ORDERED.

Not convinced by the CA's Decision, Cellpage appealed the case before us, raising the following errors:

A.

THE COURT OF APPEALS GRAVELY ERRED IN EXONERATING RESPONDENT SOLID GUARANTY INC. ON THE LAME EXCUSE THAT JPMC

FAILED TO SUBMIT A WRITTEN CREDIT LINE AGREEMENT WITH ITS CREDITOR. THE SURETY BONDS DID NOT REQUIRE THAT THE CREDIT LINE AGREEMENT MUST BE IN WRITING AND MUST BE ATTACHED TO THE BONDS AS A CONDITION FOR THE LIABILITY OF RESPONDENT THEREON, HENCE, THE DECISION OF THE COURT OF APPEALS IS WITHOUT BASIS.

B.

THE COURT OF APPEALS GRAVELY ERRED IN DISREGARDING THE TRIAL COURT'S FINDING THAT RESPONDENT SOLID GUARANTY INC. IS ALREADY BARRED BY ESTOPPEL AND COULD NO LONGER QUESTION THE VALIDITY AND BINDING EFFECT OF THE GUARANTY BONDS IT ISSUED TO JPMC. BY DEMANDING PAYMENT FROM JPMC, RESPONDENT SOLID GUARANTY UNDENIABLY RECOGNIZED ITS LIABILITY ON THE BONDS.

Cellpage maintains that the mere issuance by a surety company of a bond makes it liable under the same even if the applicant failed to comply with the requirement set by a surety company. Cellpage argues that an accessory surety agreement is valid even if the principal contract is not in writing. According to Cellpage, there is no requirement that only principal obligations that are reduced into writing are guaranteed by surety bonds. It reasons that under Article 1356 of the Civil Code, contracts are obligatory in whatever form they may have been entered into, provided all the essential requisites for their validity are present. Since the surety contract is valid, Solid Guaranty shall be liable and it is barred by estoppel from questioning its liability under the surety bond it issued.

Cellpage further avers that Solid Guaranty knew from the very start the obligation it bound itself to be liable for, and did not require that the purchases on credit or the credit line agreement be in writing and attached to the surety agreements in order for the latter to be valid or have binding effect. It likewise claims that to excuse Solid Guaranty from its liability is a clear case of unjust enrichment since Solid Guaranty was paid premiums and the bonds were secured by indemnity agreements and mortgages. It also contends that it would not have consented to the sale of cell cards to JPMC on credit were it not for its trust and confidence on the surety bond issued by Solid Guaranty.

Cellpage further argues that the reliance in the case of *First Lepanto v. Chevron* was misplaced because, unlike the surety in said case, Solid Guaranty did not require the submission of a written principal contract. Cellpage also stresses that the principal obligation secured by the surety bond is not the credit line agreement but the subsequent purchases made on credit under the said facility.

The Issues

The issues in this case are: 1) whether or not Solid Guaranty is liable to Cellpage in the absence of a written principal contract; 2) whether or not Solid Guaranty is barred by estoppel from questioning the binding effect of the surety bond it issued

to JPMC.

The Ruling of the Court

We find the Petition meritorious.

Section 175 of Presidential Decree No. 612 or the Insurance Code defined suretyship as an agreement where a party called the surety guarantees the performance by another party called the principal or obligor of an obligation or undertaking in favor of a third person called the obligee.

Under Section 176 of the Insurance Code, the nature and extent of a surety's liability are as follows:

SEC. 176. The liability of the surety or sureties shall be joint and several with the obligor and shall be limited to the amount of the bond. **It is determined strictly by the terms of the contract of suretyship in relation to the principal contract between the obligor and the obligee.** (Emphasis supplied)

Thus, the surety's liability is joint and several with the obligor, limited to the amount of the bond, and determined strictly by the terms of the contract of suretyship in relation to the principal contract between the obligor and the obligee.

Does the phrase "in relation to the principal contract between the obligor and obligee" means that a written principal agreement is required in order for the surety to be liable? The Court answers in the negative. Article 1356 of the Civil Code provides that contracts shall be obligatory in whatever form they may have been entered into, provided all the essential requisites for their validity are present. Thus, an oral agreement which has all the essential requisites for validity may be guaranteed by a surety contract. To rule otherwise contravenes the clear import of Article 1356 of the Civil Code.

The CA, however, held that there being no written credit line agreement, Cellpage cannot demand from Solid Guaranty the performance of its obligation under the surety contract pursuant to the ruling in the case of *First Lepanto*,^[6] where the Court applied strictly the terms and conditions of the surety contract which expressly state that a copy of the principal agreement must be attached and made an integral part thereof. According to *First Lepanto*, having accepted the bond, the creditor must be held bound by the recital in the surety bond that the terms and conditions of its distributorship contract be reduced in writing or at the very least communicated in writing to the surety.^[7] Thus, the CA ruled that the failure of the creditor to comply strictly with the terms of the surety bond which specifically required the submission and attachment of the principal agreement to the surety contract, affected its right to demand performance from the surety.

It bears pointing out that the ruling in *First Lepanto* was anchored on Section 176 of the Insurance Code which emphasizes the strict application of the terms of the