

FIRST DIVISION

[G.R. No. 149683, June 16, 2003]

ILOILO TRADERS FINANCE INC., PETITIONER, VS. HEIRS OF OSCAR SORIANO JR., AND MARTA L. SORIANO, RESPONDENTS.

D E C I S I O N

VITUG, J.:

On 23 October 1979 and 29 February 1980, the spouses Oscar Soriano and Marta Soriano executed two promissory notes, secured by real property mortgages, in favor of petitioner Iloilo Traders Finance, Inc. (ITF). When the Sorianos defaulted on the notes, ITF, on 23 June 1981, moved for the extrajudicial foreclosure of the mortgages. Evidently, in order to forestall the foreclosure, respondent spouses filed, on 27 August 1981, a complaint for "Declaration of a Void Contract, Injunction and Damages." On 06 January 1982, the trial court issued a writ of preliminary injunction to suspend the public sale of the hypothecated property. On 16 August 1983, the parties entered into an "Amicable Settlement" and, after affixing their signatures thereon, submitted the agreement before the court. Instead of approving forthwith the amicable settlement, the trial court required the parties to first give some clarifications on a number of items. The order read in part —

"Paragraph 4 of the compromise agreement dated August 16, 1983 states: `That the plaintiffs waive any claims, counterclaims, attorney's fees or damages that they may have against herein defendants.'

"Plaintiffs and defendant Iloilo Traders Finance, Inc., are directed to clarify whether the words `herein defendants' include defendants Bernadette Castellano and the provincial sheriff of Iloilo.

"If the plaintiffs desire to dismiss the complaint against defendants Castellano and the provincial sheriff of Iloilo, they should state it categorically and in writing.

"Furthermore, the Court wants to know from the plaintiffs and defendant Iloilo Traders Finance, Inc., if the writ of preliminary injunction issued on January 6, 1982 should be lifted as to all three defendants.

"The clarification herein sought after by the Court shall be made in writing and signed by the parties concerned, assisted by their respective attorneys.

"This Order shall be complied with within a period of ten (10) days from notice hereof."^[1]

The parties failed to comply with the court order. Resultantly, the trial court disapproved the amicable settlement and set the case for pre-trial. Nothing much

could be gleaned from the records about what might have transpired next not until seven years later when the Soriano couple filed a motion to submit anew the amicable settlement. The motion was opposed by ITF on the ground that the amount expressed in the settlement would no longer be accurate considering the lapse of seven years, implying in a way that it could be amendable thereto if the computation were to be revised. The trial court denied the Soriano motion. Significantly, while the order of denial was made on the thesis that the debtor spouses, without the consent of ITF, could not unilaterally resurrect the amicable settlement, the trial court, nevertheless, made the following observations —

"x x x (T)hat in relation to the disapproved Amicable Settlement, the intention of ITF to agree and abide by the provisions thereof, as evidenced by the signatures thereto of its President and counsels, cannot be ignored. That intention pervades to the present time since the disapproval by the court pertains only to a technicality which in no way intruded into the substance of the agreement reached by the parties. Such being the case, the Amicable Settlement had novated the original agreement of that parties as embodied in the promissory note. The rights and obligations of the parties, therefore, at this time should be based on the provisions of the amicable settlement, these should pertain to the principal amount as of that date which the parties pegged at P431,200.00 and the legal rate of interest thereon.

"The foregoing should however be a good issue in another forum, not in the present case."^[2]

Taking cue from the court order, the Sorianos withdrew their complaint and, on 16 October 1991, filed a case for novation and specific performance, docketed Civil Case No. 20047, before the Regional Trial Court, Branch 37, of Iloilo City. The case ultimately concluded with a finding made by the trial court in favor of herein respondents. On appeal to it, the Court of Appeals affirmed the judgment of the court *a quo*.

The parties have submitted that the issue focuses on whether or not the amicable settlement entered into between the parties has novated the original obligation and also, as they would correctly suggest in their argument, on whether the proposed terms of the amicable settlement were carried out or have been rendered inefficacious.

The "amicable settlement" read —

"COME NOW plaintiffs and defendant Iloilo Traders Finance, Inc., assisted by their respective undersigned counsels and to this Honorable Court most respectfully submit the following Amicable Settlement, thus:

"1. That the total of the two (2) accounts of plaintiff to herein defendant as of June 30, 1983 is Two Hundred Ninety Thousand Six Hundred Ninety One Pesos (P290,691.00) of which amount P10,691.00 shall be paid by plaintiffs to herein defendant at the time of the signing of this Amicable Settlement;

"2. That to this amount of P290,691.00 shall be added P151,200.00 by way of interest for 36 months thus making a total of Four