

SECOND DIVISION

[G.R. No. 118305, February 12, 1998]

**AYALA INVESTMENT & DEVELOPMENT CORP. AND ABELARDO
MAGSAJO, PETITIONERS, VS. COURT OF APPEALS AND SPOUSES
ALFREDO & ENCARNACION CHING, RESPONDENTS.**

D E C I S I O N

MARTINEZ, J.:

Under Article 161 of the Civil Code, what debts and obligations contracted by the husband alone are considered “for the benefit of the conjugal partnership” which are chargeable against the conjugal partnership? Is a surety agreement or an accommodation contract entered into by the husband in favor of his employer within the contemplation of the said provision?

These are the issues which we will resolve in this petition for review.

The petitioner assails the decision dated April 14, 1994 of the respondent Court of Appeals in “Spouses Alfredo and Encarnacion Ching vs. Ayala Investment and Development Corporation, *et. al.*,” docketed as CA-G.R. CV No. 29632,^[1] upholding the decision of the Regional Trial Court of Pasig, Branch 168, which ruled that the conjugal partnership of gains of respondents-spouses Alfredo and Encarnacion Ching is not liable for the payment of the debts secured by respondent-husband Alfredo Ching.

A chronology of the essential antecedent facts is necessary for a clear understanding of the case at bar.

Philippine Blooming Mills (hereinafter referred to as PBM) obtained a ₱50,300,000.00 loan from petitioner Ayala Investment and Development Corporation (hereinafter referred to as AIDC). As added security for the credit line extended to PBM, respondent Alfredo Ching, Executive Vice President of PBM, executed security agreements on December 10, 1980 and on March 20, 1981 making himself jointly and severally answerable with PBM’s indebtedness to AIDC.

PBM failed to pay the loan. Thus, on July 30, 1981, AIDC filed a case for sum of money against PBM and respondent-husband Alfredo Ching with the then Court of First Instance of Rizal (Pasig), Branch VIII, entitled “Ayala Investment and Development Corporation vs. Philippine Blooming Mills and Alfredo Ching,” docketed as Civil Case No. 42228.

After trial, the court rendered judgment ordering PBM and respondent-husband Alfredo Ching to jointly and severally pay AIDC the principal amount of ₱50,300,000.00 with interests.

Pending appeal of the judgment in Civil Case No. 42228, upon motion of AIDC, the lower court issued a writ of execution pending appeal. Upon AIDC’s putting up of an

P8,000,000.00 bond, a writ of execution dated May 12, 1982 was issued. Thereafter, petitioner Abelardo Magsajo, Sr., Deputy Sheriff of Rizal and appointed sheriff in Civil Case No. 42228, caused the issuance and service upon respondents-spouses of a notice of sheriff sale dated May 20, 1982 on three (3) of their conjugal properties. Petitioner Magsajo then scheduled the auction sale of the properties levied.

On June 9, 1982, private respondents filed a case of injunction against petitioners with the then Court of First Instance of Rizal (Pasig), Branch XIII, to enjoin the auction sale alleging that petitioners cannot enforce the judgment against the conjugal partnership levied on the ground that, among others, the subject loan did not redound to the benefit of the said conjugal partnership.^[2] Upon application of private respondents, the lower court issued a temporary restraining order to prevent petitioner Magsajo from proceeding with the enforcement of the writ of execution and with the sale of the said properties at public auction.

AIDC filed a petition for *certiorari* before the Court of Appeals,^[3] questioning the order of the lower court enjoining the sale. Respondent Court of Appeals issued a Temporary Restraining Order on June 25, 1982, enjoining the lower court^[4] from enforcing its Order of June 14, 1982, thus paving the way for the scheduled auction sale of respondents-spouses conjugal properties.

On June 25, 1982, the auction sale took place. AIDC being the only bidder, was issued a Certificate of Sale by petitioner Magsajo, which was registered on July 2, 1982. Upon expiration of the redemption period, petitioner sheriff issued the final deed of sale on August 4, 1982 which was registered on August 9, 1983.

In the meantime, the respondent court, on August 4, 1982, decided CA-G.R. SP No. 14404, in this manner:

“WHEREFORE, the petition for *certiorari* in this case is granted and the challenged order of the respondent Judge dated June 14, 1982 in Civil Case No. 46309 is hereby set aside and nullified. The same petition insofar as it seeks to enjoin the respondent Judge from proceeding with Civil Case No. 46309 is, however, denied.

No pronouncement is here made as to costs. x x x x.”^[5]

On September 3, 1983, AIDC filed a motion to dismiss the petition for injunction filed before Branch XIII of the CFI of Rizal (Pasig) on the ground that the same had become moot and academic with the consummation of the sale. Respondents filed their opposition to the motion arguing, among others, that where a third party who claims ownership of the property attached or levied upon, a different legal situation is presented; and that in this case, two (2) of the real properties are actually in the name of Encarnacion Ching, a non-party to Civil Case No. 42228.

The lower court denied the motion to dismiss. Hence, trial on the merits proceeded. Private respondents presented several witnesses. On the other hand, petitioners did not present any evidence.

On September 18, 1991, the trial court promulgated its decision declaring the sale on execution null and void. Petitioners appealed to the respondent court, which was docketed as CA-G.R. CV No. 29632.

On April 14, 1994, the respondent court promulgated the assailed decision, affirming the decision of the regional trial court. It held that:

“The loan procured from respondent-appellant AIDC was for the advancement and benefit of Philippine Blooming Mills and not for the benefit of the conjugal partnership of petitioners-appellees.

X X X

X X X

X X X

As to the applicable law, whether it is Article 161 of the New Civil Code or Article 1211 of the Family Code-suffice it to say that the two provisions are substantially the same. Nevertheless, We agree with the trial court that the Family Code is the applicable law on the matter x x x x x.

Article 121 of the Family Code provides that ‘The conjugal partnership shall be liable for: x x x (2) All debts and obligations contracted during the marriage by the designated Administrator-Spouse for the benefit of the conjugal partnership of gains x x x.’ The burden of proof that the debt was contracted for the benefit of the conjugal partnership of gains, lies with the creditor-party litigant claiming as such. In the case at bar, respondent-appellant AIDC failed to prove that the debt was contracted by appellee-husband, for the benefit of the conjugal partnership of gains.”

The dispositive portion of the decision reads:

“WHEREFORE, in view of all the foregoing, judgment is hereby rendered DISMISSING the appeal. The decision of the Regional Trial Court is AFFIRMED *in toto*.”^[6]

Petitioner filed a Motion for Reconsideration which was denied by the respondent court in a Resolution dated November 28, 1994.^[7]

Hence, this petition for review. Petitioner contends that the “respondent court erred in ruling that the conjugal partnership of private respondents is not liable for the obligation by the respondent-husband.”

Specifically, the errors allegedly committed by the respondent court are as follows:

“I. RESPONDENT COURT ERRED IN RULING THAT THE OBLIGATION INCURRED BY RESPONDENT HUSBAND DID NOT REDOUND TO THE BENEFIT OF THE CONJUGAL PARTNERSHIP OF THE PRIVATE RESPONDENT.

II RESPONDENT COURT ERRED IN RULING THAT THE ACT OF RESPONDENT HUSBAND IN SECURING THE SUBJECT LOAN IS NOT PART OF HIS INDUSTRY, BUSINESS OR CAREER FROM WHICH HE SUPPORTS HIS FAMILY.”

Petitioners in their appeal point out that there is no need to prove that actual benefit redounded to the benefit of the partnership; all that is necessary, they say, is that the transaction was entered into for the benefit of the conjugal partnership. Thus, petitioners aver that:

“The wordings of Article 161 of the Civil Code is very clear: for the partnership to be held liable, the husband must have contracted the debt ‘for the benefit of’ the partnership, thus:

‘Art. 161. The conjugal partnership shall be liable for:

- 1) all debts and obligations contracted by the husband for the benefit of the conjugal partnership x x x.'

There is a difference between the phrases: 'redounded to the benefit of' or 'benefited from' (on the one hand) and 'for the benefit of' (on the other). The former require that actual benefit must have been realized; the latter requires only that the transaction should be one which normally would produce benefit to the partnership, regardless of whether or not actual benefit accrued."^[8]

We do not agree with petitioners that there is a difference between the terms "redounded to the benefit of" or "benefited from" on the one hand; and "for the benefit of" on the other. They mean one and the same thing. Article 161 (1) of the Civil Code and Article 121 (2) of the Family Code are similarly worded, i.e., both use the term "for the benefit of." On the other hand, Article 122 of the Family Code provides that "The payment of personal debts by the husband or the wife before or during the marriage shall not be charged to the conjugal partnership except insofar as they redounded to the benefit of the family." As can be seen, the terms are used interchangeably.

Petitioners further contend that the ruling of the respondent court runs counter to the pronouncement of this Court in the case of Cobb-Perez vs. Lantin,^[9] that the husband as head of the family and as administrator of the conjugal partnership is presumed to have contracted obligations for the benefit of the family or the conjugal partnership.

Contrary to the contention of the petitioners, the case of Cobb-Perez is not applicable in the case at bar. This Court has, on several instances, interpreted the term "for the benefit of the conjugal partnership."

In the cases of Javier vs. Osmeña,^[10] Abella de Diaz vs. Erlanger & Galinger, Inc.,^[11] Cobb-Perez vs. Lantin^[12] and G-Tractors, Inc. vs. Court of Appeals,^[13] cited by the petitioners, we held that:

"The debts contracted by the husband during the marriage relation, for and in the exercise of the industry or profession by which he contributes toward the support of his family, are not his personal and private debts, and the products or income from the wife's own property, which, like those of her husband's, are liable for the payment of the marriage expenses, cannot be excepted from the payment of such debts." (Javier)

"The husband, as the manager of the partnership (Article 1412, Civil Code), has a right to embark the partnership in an ordinary commercial enterprise for gain, and the fact that the wife may not approve of a venture does not make it a private and personal one of the husband." (Abella de Diaz)

"Debts contracted by the husband for and in the exercise of the industry or profession by which he contributes to the support of the family, cannot be deemed to be his exclusive and private debts." (Cobb-Perez)

"x x x if he incurs an indebtedness in the legitimate pursuit of his career or profession or suffers losses in a legitimate business, the conjugal partnership must equally bear the indebtedness and the losses, unless he deliberately acted to the prejudice of his family." (G-Tractors)

However, in the cases of Ansaldo vs. Sheriff of Manila, Fidelity Insurance & Luzon Insurance Co.,^[14] Liberty Insurance Corporation vs. Banuelos,^[15] and Luzon Surety

Inc. vs. De Garcia,^[16] cited by the respondents, we ruled that:

“The fruits of the paraphernal property which form part of the assets of the conjugal partnership, are subject to the payment of the debts and expenses of the spouses, but not to the payment of the personal obligations (guaranty agreements) of the husband, unless it be proved that such obligations were productive of some benefit to the family.” (Ansaldo; parenthetical phrase ours.)

“When there is no showing that the execution of an indemnity agreement by the husband redounded to the benefit of his family, the undertaking is not a conjugal debt but an obligation personal to him.” (Liberty Insurance)

“In the most categorical language, a conjugal partnership under Article 161 of the new Civil Code is liable only for such ‘debts and obligations contracted by the husband for the benefit of the conjugal partnership.’ There must be the requisite showing then of some advantage which clearly accrued to the welfare of the spouses. Certainly, to make a conjugal partnership respond for a liability that should appertain to the husband alone is to defeat and frustrate the avowed objective of the new Civil Code to show the utmost concern for the solidarity and well-being of the family as a unit. The husband, therefore, is denied the power to assume unnecessary and unwarranted risks to the financial stability of the conjugal partnership.” (Luzon Surety, Inc.)

From the foregoing jurisprudential rulings of this Court, we can derive the following conclusions:

(A) If the husband himself is the principal obligor in the contract, i.e., he directly received the money and services to be used in or for his own business or his own profession, that contract falls within the term “x x x obligations for the benefit of the conjugal partnership.” Here, no actual benefit may be proved. It is enough that the benefit to the family is apparent at the time of the signing of the contract. From the very nature of the contract of loan or services, the family stands to benefit from the loan facility or services to be rendered to the business or profession of the husband. It is immaterial, if in the end, his business or profession fails or does not succeed. Simply stated, where the husband contracts obligations on behalf of the family business, the law presumes, and rightly so, that such obligation will redound to the benefit of the conjugal partnership.

(B) On the other hand, if the money or services are given to another person or entity, and the husband acted only as a surety or guarantor, that contract cannot, by itself, alone be categorized as falling within the context of “obligations for the benefit of the conjugal partnership.” The contract of loan or services is clearly for the benefit of the principal debtor and not for the surety or his family. No presumption can be inferred that, when a husband enters into a contract of surety or accommodation agreement, it is “for the benefit of the conjugal partnership.” Proof must be presented to establish benefit redounding to the conjugal partnership.

Thus, the distinction between the Cobb-Perez case, and we add, that of the three other companion cases, on the one hand, and that of Ansaldo, Liberty Insurance and Luzon Surety, is that in the former, the husband contracted the obligation for his own business; while in the latter, the husband merely acted as a surety for the loan contracted by another for the latter’s business.