



Republic of the Philippines  
**Supreme Court**  
Manila

**FIRST DIVISION**

**CELLPAGE INTERNATIONAL  
CORPORATION,**

Petitioner,

**G.R. No. 226731**

**Present:**

PERALTA, C.J., *Chairperson*,  
CAGUIOA, *Working Chairperson*,  
REYES, J. JR.,  
LAZARO-JAVIER, and  
LOPEZ, JJ.

- versus -

**THE SOLID GUARANTY, INC.,**  
Respondent.

**Promulgated:**

**JUN 17 2020**

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**DECISION**

**REYES, J. JR., J.:**

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

<sup>1</sup> *Rollo*, pp. 3-24.

<sup>2</sup> Penned by Associate Justice Jhosep Y. Lopez, with Associate Justices Ramon R. Garcia and Leoncia R. Dimagiba, concurring; *id.* at 26-35.

<sup>3</sup> *Id.* at 37-38.

### 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	₱2,500,000.00
Surety Bond No. 00474	April 24, 2002	₱2,500,000.00
Surety Bond No. 00748	May 6, 2002	₱2,000,000.00

In August 2002, JPMC purchased cellcards amounting to Seven Million Two Thousand Six Hundred Pesos (₱7,002,600.00) from Cellpage, as follows:

DATE	QUANTITY	INVOICE NO.	AMOUNT
08/08/02	1,000 pcs.	O35701	₱ 273,000.00
08/08/02	4,000 pcs.	O35713	₱1,092,000.00
08/09/02	4,000 pcs.	O35732	₱1,092,000.00
08/12/02	1,000 pcs.	O35790	₱ 273,000.00
08/13/02	1,000 pcs.	O35839	₱ 273,000.00
08/14/02	3,000 pcs.	O35864	₱ 819,000.00
08/14/02	3,000 pcs.	O35871	₱ 837,000.00
08/16/02	3,000 pcs.	O35904	₱ 837,000.00
08/20/02	900 pcs.	O35972	₱ 251,100.00
08/22/02	3,000 pcs.	O36028	₱ 837,000.00
08/23/02	500 pcs.	O36045	₱ 139,500.00
08/24/02	1,000 pcs.	O36061	₱ 279,000.00
TOTAL			₱ 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	₱ 546,000.00
Security-Caloocan	992311	08/23/02	₱ 546,000.00

Security-Caloocan	992312	08/23/02	₱ 273,000.00
Security-Caloocan	992320	08/24/02	₱ 546,000.00
Security-Caloocan	992321	08/24/02	₱ 546,000.00
TOTAL			₱2,457,000.00

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 ₱7,002,600.00, 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 (₱7,002,66.00) (*sic*) plus twelve percent (12%) interest per annum computed from the date of last demand until fully paid;
- 2) Twenty Thousand Pesos (₱20,000.00) as exemplary damages;
- 3) Twenty Thousand Pesos (₱20,000.00) as reasonable attorney's fees; and
- 4) Costs of Suit.

SO ORDERED.<sup>4</sup>

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

<sup>4</sup> Id. at 28.

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.*,<sup>5</sup> 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.

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<sup>5</sup> 679 Phil. 313 (2012).

## 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

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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*,<sup>6</sup> 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

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<sup>6</sup> *Supra* note 5, at 322-328.

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communicated in writing to the surety.<sup>7</sup> 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 surety contract in relation to the principal contract between the obligor and obligee. *First Lepanto's* pronouncement that a written principal agreement is required in order for the creditor to demand performance was arrived at by applying strictly the terms of the surety bond which required the submission and attachment of the principal agreement to the surety contract.

Thus, following the provision of Section 176 of the Insurance Code, the ruling in *First Lepanto* cannot be applied to this case. Since the liability of a surety is determined strictly by the terms of the surety contract, each case then must be assessed independently in light of the agreement of the parties as embodied in the terms of the contract of suretyship.

Basic is the rule that a contract is the law between the contracting parties and obligations arising therefrom have the force of law between them and should be complied with in good faith.<sup>8</sup> The parties are not precluded from imposing conditions and stipulating such terms as they may deem necessary as long as the same are not contrary to law, morals, good customs, public order or public policy.<sup>9</sup> Among these conditions is the requirement to submit a written principal agreement before the surety can be made liable under the suretyship contract. Thus, whether or not a written principal agreement is required in order to demand performance from the surety would depend on the terms of the surety contract itself.

Hence, it is necessary to examine the surety bonds issued by Solid Guaranty in order to answer the issue of whether or not a written agreement is required in order for Cellpage to demand from Solid Guaranty the performance of its obligations under the bonds. The said surety bonds, which contain the same terms and conditions, except for the amount they guarantee, pertinently read:

That we, JOMAR POWERHOUSE MARKETING CORP., with address at No. 92 C. Palanan Street, Quiapo Manila, as PRINCIPAL, and THE SOLID GUARANTY, INC., a non-life insurance corporation duly organized and existing under and by virtue of the laws of the Philippines, with principal office at the Eighth Floor, Solidbank Building, Dasmariñas,

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<sup>7</sup> Id.

<sup>8</sup> CIVIL CODE, Article 1159. See also *The Mercantile Insurance Co., Inc. v. DMCI-Laing Construction, Inc.*, G.R. No. 205007, September 16, 2019.

<sup>9</sup> CIVIL CODE, Article 1159.

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Manila, Philippines, as SURETY, are held and firmly bound unto CELLPAGE INTERNATIONAL CORPORATION in the sum of x x (x x x) Philippine Currency, for the payment of which well and truly to be made, we bind ourselves jointly and severally by these presents.

The conditions of this obligation are as follows:

**WHEREAS, the principal has applied for a credit line with the Obligee for the purchase of cell cards and accessories.**

**WHEREAS, the Obligee requires the principal to post a good and sufficient bond in the above stated sum to guarantee payment/remittance of cost of products within the stipulated time in accordance with the terms and conditions of the agreement.**

IN NO CASE, HOWEVER, shall the liability of the surety hereunder exceed the sum of x xx (x x x) Philippine Currency, inclusive.

x x x x

**WHEREAS, the contract requires the above-bounden Principal to give a good and sufficient bond in the above stated sum to secure the full and faithful performance on their part of said contract.**

NOW THEREFORE, if the above-bounden Principal shall in all respects duly and fully observe and perform all and singular the aforesaid covenants, conditions and agreements to the true intent and meaning thereof, then this obligation shall be null and void, otherwise to remain in full force and effect.

Liability of the Surety on this bond will expire [on] March 20, 2003 and said bond will be cancelled Five (5) days after its expiration, unless Surety is notified of any existing obligation thereunder. (Emphasis supplied)

The surety bonds do not expressly require the submission of a written principal agreement. Nowhere in the said surety bonds did Solid Guaranty and Cellpage stipulate that Solid Guaranty's performance of its obligations under the surety bonds is preconditioned upon Cellpage's submission of a written principal agreement. It is clear that Solid Guaranty bound itself solidarily with JPMC for the payment of the amount stated in the surety bonds in case of the latter's failure to perform its obligations to Cellpage, with knowledge of the following: 1) the principal, JPMC, has applied for a credit line with Cellpage for the purchase of cell cards and accessories; 2) Cellpage required JPMC to post a good and sufficient bond in the amount specified in the surety bonds in order to guarantee payment/remittance of cost of products within the stipulated time in accordance with the terms and conditions of the agreement; and 3) the contract between JPMC and Cellpage requires the former to give a sufficient bond to secure its full and faithful performance of its obligation in the principal contract.

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The CA misconstrued the phrase “in accordance with the terms and conditions of the agreement” in the second whereas clause as a condition imposed upon Cellpage to attach the principal agreement to the surety bonds. At the risk of being repetitive, the second condition merely states that JPMC is required to post a bond that will guarantee its payment of the cost of the products within the stipulated time in accordance with the terms and conditions of the agreement. If Solid Guaranty’s intention was to impose a condition upon its solidary liability, then it should have clearly and unequivocally specified in the surety bonds that it requires the written principal agreement to be attached thereto. Its failure to do so must be construed against it.<sup>10</sup> A suretyship agreement is a contract of adhesion ordinarily prepared by the surety or insurance company.<sup>11</sup> Therefore, its provisions are interpreted liberally in favor of the insured and strictly against the insurer who, as the drafter of the bond, had the opportunity to state plainly the terms of its obligation.<sup>12</sup>

The oft-repeated rule in suretyship is that a surety's liability is joint and solidary with that of the principal debtor.<sup>13</sup> This makes a surety agreement an ancillary contract as it presupposes the existence of a principal agreement.<sup>14</sup> Although the surety's obligation is merely secondary or collateral to the obligation contracted by the principal, this Court has nevertheless characterized the surety's liability to the creditor of the principal as “direct, primary, and absolute; in other words, the surety is directly and equally bound with the principal.”<sup>15</sup>

Here, the existence of a valid principal agreement is not in question. The principal contract between JPMC and Cellpage was duly substantiated by issue slips, delivery receipts and purchase orders, and was acknowledged by Solid Guaranty. The CA even acknowledged the validity of this contract when it ruled that the absence of a written agreement affected not the validity and effectivity of the surety bonds but the right of the creditor to demand from the surety the performance of its obligations under the surety bonds. By upholding the validity and effectivity of the surety bonds, the CA, in effect, upheld the existence and validity of the principal contract which the ancillary contract of suretyship presupposes to exist.

Solid Guaranty cannot escape its liability arising from the surety bonds. By the terms of the surety bonds, Solid Guaranty obligated itself solidarily with JPMC for the fulfillment of the latter’s obligation to Cellpage. Upon JPMC’s failure to perform its obligations to the latter, Solid Guaranty’s liabilities under the bonds accrued. Hence, Solid Guaranty is

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<sup>10</sup> *FGU Insurance Corp. v. Spouses Roxas*, 816 Phil. 71-110 (2017).

<sup>11</sup> *Id.*

<sup>12</sup> *Id.*

<sup>13</sup> *Gilat Satellite Networks, Ltd. v. United Coconut Planters Bank General Insurance Co., Inc.*, 731 Phil. 464, 473 (2014).

<sup>14</sup> *Id.*

<sup>15</sup> *FGU Insurance Corp. v. Spouses Roxas*, supra note 10.

solidarily liable with JPMC for the payment of its obligations to Cellpage up to the face amount of the surety bonds.

Having ruled so, we find no need to discuss the second assignment of error.

Thus, the Decision dated June 9, 2016 and Resolution dated August 25, 2016 of the CA are hereby reversed and set aside, and the Decision dated January 3, 2012 and Order dated December 19, 2012 of the RTC of Quezon City are reinstated with modification in that Solid Guaranty is solidarily liable with JPMC for the payment of the latter's obligation to Cellpage in the amount of ₱7,000,000, the face amount of the surety bonds.

The Court also modifies the interest rate imposed upon the monetary liability of JPMC and Solid Guaranty. In *Eastern Shipping Lines v. Court of Appeals*,<sup>16</sup> the Court established the guidelines for imposition of compensatory interests as follows:

With regard particularly to an award of interest in the concept of actual and compensatory damages, the rate of interest, as well as the accrual thereof, is imposed, as follows:

1. When the obligation is breached, and it consists in the payment of a sum of money, i.e., a loan or forbearance of money, the interest due should be that which may have been stipulated in writing. Furthermore, the interest due shall itself earn legal interest from the time it is judicially demanded. In the absence of stipulation, the rate of interest shall be 12% per annum to be computed from default, i.e., from judicial or extrajudicial demand under and subject to the provisions of Article 1169 of the Civil Code.

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3. When the judgment of the court awarding a sum of money becomes final and executory, the rate of legal interest, whether the case falls under paragraph 1 or paragraph 2, above, shall be 12% per annum from such finality until its satisfaction, this interim period being deemed to be by then an equivalent to a forbearance of credit.

Subsequently, the Bangko Sentral ng Pilipinas-Monetary Board (BSP-MB) issued Circular No. 799, series of 2013 reducing the rate of interest applicable on loan or forbearance of money from 12% to 6% per annum, effective on July 1, 2013.<sup>17</sup> This reduced interest rate is applied prospectively.<sup>18</sup> Thus, the interest rate of 12% *per annum* can only be

<sup>16</sup> 304 Phil. 236, 252-254 (1994).

<sup>17</sup> *Philippine Commercial and International Bank v. William Golangco Construction Corp.*, G.R. Nos. 195372 & 195375, April 10, 2019.

<sup>18</sup> *Nacar v. Gallery Frames*, 716 Phil. 267, 279-281 (2013).

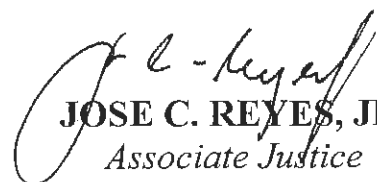
applied until June 30, 2013, while the reduced interest rate of 6% can be applied from July 1, 2013.<sup>19</sup>

Applying the above guidelines and in the absence of an agreement as regards the interest, the Court is compelled to award the legal interest at the rate of 12% per annum from the date of the last extra-judicial demand until June 30, 2013, and at the reduced rate of 6% per annum from July 1, 2013 until its full satisfaction.<sup>20</sup>

**WHEREFORE**, the Petition is **GRANTED**. The Decision dated June 9, 2016 and the Resolution dated August 25, 2016 issued by the Court of Appeals are hereby **REVERSED** and **SET ASIDE**. The Decision dated January 3, 2012 and Order dated December 19, 2012 of the Regional Trial Court of Quezon City are hereby **REINSTATED** with **MODIFICATION** as follows:

1. The amount of Seven Million Two Thousand Six Hundred (₱7,002,600) is subject to a legal interest at the rate of 12% per annum from the date of the last extra-judicial demand until June 30, 2013, and at the reduced rate of 6% per annum from July 1, 2013 until its full satisfaction.
2. Solid Guaranty, Inc. is solidarily liable with Jomar Powerhouse Marketing Corporation for the payment of the latter's obligation to Cellpage International Corp. only up to the face amount of the surety bonds, equivalent to Seven Million Pesos ₱7,000,000, subject to a legal interest at the rate of 12% per annum from the date of the last extra-judicial demand until June 30, 2013, and at the reduced rate of 6% per annum from July 1, 2013, until its full satisfaction.

**SO ORDERED.**

  
**JOSE C. REYES, JR.**  
*Associate Justice*

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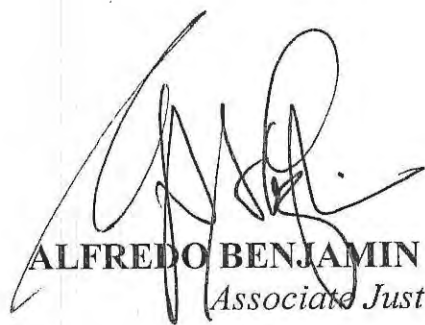
<sup>19</sup> Id.

<sup>20</sup> Id.


**WE CONCUR:**



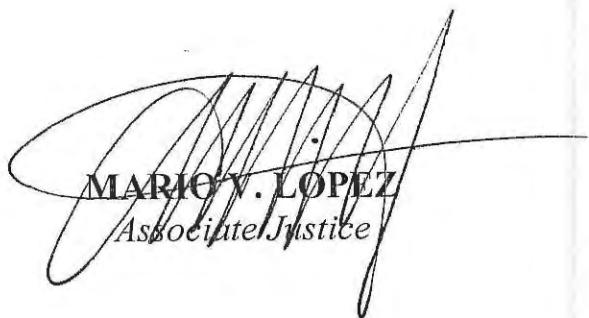
**DIOSDADO M. PERALTA**  
*Chief Justice*  
*Chairperson*



**ALFREDO BENJAMIN S. CAGUIOA**  
*Associate Justice*



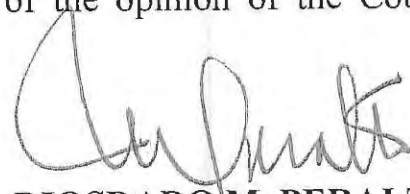
**AMY C. LAZARO-JAVIER**  
*Associate Justice*



**MARICYN. LOPEZ**  
*Associate Justice*

**CERTIFICATION**

Pursuant to Section 13, Article VIII of the Constitution, I certify that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.



**DIOSDADO M. PERALTA**  
*Chief Justice*

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