

RFBT 09 – LAW ON OBLIGATIONS – CLEAN TTS COPY

Formation, Nature, and Effect

An obligation is a juridical necessity to give, to do, or not to do. A civil obligation gives the creditor the right to compel; a natural obligation does not give a right of action.

The elements are the passive subject or obligor-debtor, active subject or obligee-creditor, prestation or subject matter, and juridical tie or source.

A real obligation is to give a specific or generic thing. For a specific thing, concurrent obligations are to preserve it, deliver it, deliver its accessions and accessories, and deliver its fruits. Fruits may be natural, industrial, or civil. A personal obligation may be to do, positive, or not to do, negative.

The creditor has a personal right to fruits when the obligation to deliver arises and a real right when the goods are delivered.

Sources are law, contract, quasi-contract, delicts, and quasi-delicts. Law is not presumed. Contracts must be complied with in good faith. Quasi-contracts prevent unjust enrichment. Negotiorum gestio is voluntary taking charge of abandoned business; solutio indebiti is payment by mistake.

Delicts may produce criminal and civil liability, including restitution, reparation of direct damage, and indemnification of consequential damages. Quasi-delicts, or torts or culpa aquiliana, involve damage from fault or negligence where there is no pre-existing contractual relation.

Breach, Delay, and Remedies

Fraud, negligence, delay, and contravention of tenor affect obligations. Culpa contractual results in breach of contract; culpa criminal in commission of crime; culpa aquiliana is civil negligence or quasi-delict.

Mora solvendi is delay of the debtor: ex re for a real obligation and ex persona for a personal obligation. Mora accipiendi is delay of the creditor. Compensatio morae is delay of both parties and is considered no delay.

Causal fraud is fraud in obtaining consent and makes the contract voidable. Incidental fraud is fraud in performance; the obligation remains valid but damages may be due. Waiver of past fraud is valid, but not waiver of future fraud.

General rule: no demand, no delay. Exceptions: law provides otherwise; parties stipulate otherwise; time is of the essence; demand is useless; or the obligation is reciprocal.

For a determinate thing, the creditor may demand specific performance. For a generic thing, specific or substitute performance. For an obligation to do, substitute performance is at the debtor's expense. For an obligation not to do, the act may be undone at the debtor's expense. Specific performance of an obligation to do is unavailable because it would amount to involuntary servitude.

Other remedies are exhaustion of assets, accion subrogatoria, and accion pauliana. Accion subrogatoria lets the creditor exercise the debtor's rights except those inherently personal. Accion pauliana seeks rescission of acts or contracts made to defraud the creditor and is a remedy of last resort when the third person acts in bad faith.

Kinds of damages, MENTAL: Moral, Exemplary, Nominal, Temperate, Actual, and Liquidated.

A fortuitous event is an extraordinary event impossible to foresee or avoid, independent of the debtor's will, that makes performance impossible. General rule: it extinguishes the obligation. Exceptions: law, stipulation, assumption of risk, or concurrence of negligence, delay, or fraud.

Kinds of Civil Obligations

A pure obligation is demandable at once. A conditional obligation depends on a condition, a future and uncertain event. Suspensive gives rise to the obligation; resolutive extinguishes an existing right. Potestative depends on a party's will; casual on a third party or chance. A condition may be positive or negative, possible

or impossible.

The notes identify positive plus suspensive plus potestative on the debtor's part, and positive plus suspensive plus impossible, as void combinations.

A suspensive condition retroacts to constitution of the obligation, subject to the source rules on fruits and interest. Under a resolutive condition, the parties return what they received. Constructive fulfillment occurs when the obligor voluntarily prevents fulfillment.

A period is a future and certain event. It may be definite or indefinite, legal, voluntary, or judicial. General rule: it benefits both creditor and debtor. The debtor loses its benefit in the cases listed in the notes: insolvency without guarantee; failure to furnish promised guarantees; impairment of guarantees without replacement; violation of an undertaking for which the period was granted; or attempt to abscond.

Conjunctive means all prestations must be performed. Alternative means several are due but complete performance of one is enough. Facultative means one principal prestation is due but another may be substituted. The right to substitute is always with the debtor.

In a joint obligation, each debtor and creditor is bound or entitled only proportionately. In a solidary obligation, each debtor may be liable for the whole and each creditor entitled to the whole. Solidarity exists when expressly stated, required by law, or required by the nature of the obligation.

An indivisible obligation cannot be partially performed; a divisible obligation can. Divisibility does not change whether liability is joint or solidary.

A penal clause provides greater liability for noncompliance and proof of actual damage is not required. General rule: the penalty takes the place of damages. Damages and interest may also be demanded when stipulated, when the debtor refuses to pay the penalty, or when the debtor is guilty of fraud. The court may reduce a penalty for partial or irregular compliance or when it is iniquitous or unconscionable.

Payment and Performance

Integrity of payment means the debtor cannot be compelled to make partial payment. Identity means what is due should be what is paid. Venue is the stipulated place; without stipulation, generally the debtor's domicile, except a specific thing at its location when the obligation was constituted.

The payor and payee must be capacitated. Payment may be made by the debtor or a third party, subject to the source rules on reimbursement and subrogation. Payment may be received by the creditor or qualifying third persons, subject to full or beneficial extinguishment.

For monetary payment, follow stipulation or legal tender. The notes state bills in any amount, peso coins up to two thousand pesos, and centavo coins up to two hundred pesos. Checks and mercantile documents have the effect of payment when encashed or when impaired through the creditor's fault.

Dacion en pago transfers ownership of a thing or right to the creditor as payment. Payment by cession delivers properties to all creditors for sale and application of proceeds; there must be at least two creditors and the debtor must be insolvent.

For tender and consignation: valid tender is made; creditor refuses without just cause; interested persons are notified; the thing is deposited with judicial authorities; then interested persons are notified again.

Application of payment follows stipulation, debtor designation, creditor designation, then the most onerous debt. There must be two or more debts of the same kind, owed by the same debtor to the same creditor, and all must be due.

Extinguishment of Obligations

Loss of a specific thing generally extinguishes the obligation, subject to fortuitous-event exceptions. Loss of a generic thing generally does not extinguish it, except when the generic thing is delimited. Impossibility must be actual impossibility, not mere difficulty.

Condonation or remission is gratuitous abandonment by the creditor of the claim. Confusion or merger is the meeting in one person of creditor and debtor qualities over the same obligation.

Compensation exists when two persons in their own rights are creditors and debtors of each other. They must be mutual principal debtor and creditor; both debts must be due, liquidated, and demandable; and must involve money or consumable things of the same kind and quality.

Novation modifies or extinguishes an obligation through another. Real or objective novation changes the object. Personal or subjective novation changes parties through substitution of debtor or subrogation of creditor.

Expromission occurs when a third person initiates substitution. Delegacion occurs when the old debtor initiates it. Requisites of novation are a valid old obligation, agreement of all parties, and a valid new obligation.

Accessory obligations generally extinguish with novation, subject to the exceptions listed in the notes.