

## FIRST DIVISION

[ G.R. No. 159352, April 14, 2004 ]

### **PREMIERE DEVELOPMENT BANK, PETITIONER, VS. COURT OF APPEALS, PANACOR MARKETING CORPORATION AND ARIZONA TRANSPORT CORPORATION, RESPONDENTS.**

#### **D E C I S I O N**

##### **YNARES-SATIAGO, J.:**

This is a petition for review under Rule 45 of the 1997 Rules on Civil Procedure seeking the annulment of the Decision dated June 18, 2003 of the Court of Appeals<sup>[1]</sup> which affirmed the Decision of the Regional Trial Court<sup>[2]</sup> in Civil Case No. 65577.

The undisputed facts show that on or about October 1994, Panacor Marketing Corporation (Panacor for brevity), a newly formed corporation, acquired an exclusive distributorship of products manufactured by Colgate Palmolive Philippines, Inc. (Colgate for short). To meet the capital requirements of the exclusive distributorship, which required an initial inventory level of P7.5 million, Panacor applied for a loan of P4.1 million with Premiere Development Bank. After an extensive study of Panacor's creditworthiness, Premiere Bank rejected the loan application and suggested that its affiliate company, Arizona Transport Corporation (Arizona for short),<sup>[3]</sup> should instead apply for the loan on condition that the proceeds thereof shall be made available to Panacor. Eventually, Panacor was granted a P4.1 million credit line as evidenced by a Credit Line Agreement.<sup>[4]</sup> As suggested, Arizona, which was an existing loan client, applied for and was granted a loan of P6.1 million, P3.4 million of which would be used to pay-off its existing loan accounts and the remaining P2.7 million as credit line of Panacor. As security for the P6.1 million loan, Arizona, represented by its Chief Executive Officer Pedro Panaligan and spouses Pedro and Marietta Panaligan in their personal capacities, executed a Real Estate Mortgage against a parcel of land covered by TCT No. T-3475 as per Entry No. 49507 dated October 2, 1995.<sup>[5]</sup>

Since the P2.7 million released by Premiere Bank fell short of the P4.1 million credit line which was previously approved, Panacor negotiated for a take-out loan with Iba Finance Corporation (hereinafter referred to as Iba-Finance) in the sum of P10 million, P7.5 million of which will be released outright in order to take-out the loan from Premiere Bank and the balance of P2.5 million (to complete the needed capital of P4.1 million with Colgate) to be released after the cancellation by Premiere of the collateral mortgage on the property covered by TCT No. T-3475. Pursuant to the said take-out agreement, Iba-Finance was authorized to pay Premiere Bank the prior existing loan obligations of Arizona in an amount not to exceed P6 million.

On October 5, 1995, Iba-Finance sent a letter to Ms. Arlene R. Martillano, officer-in-charge of Premiere Bank's San Juan Branch, informing her of the approved loan in

favor of Panacor and Arizona, and requesting for the release of TCT No. T-3475. Martillano, after reading the letter, affixed her signature of conformity thereto and sent the original copy to Premiere Bank's legal office. The full text of the letter reads:[6]

Please be informed that we have approved the loan application of ARIZONA TRANSPORT CORP. and PANACOR MARKETING CORPORATION. Both represented by MR. PEDRO P. PANALIGAN (hereinafter the BORROWERS) in the principal amount of PESOS: SEVEN MILLION FIVE HUNDRED THOUSAND ONLY (P7,500,000.00) Philippine Currency. The loan shall be secured by a Real Estate Mortgage over a parcel of land located at #777 Nueve de Pebrero St. Bo. Mauway, Mandaluyong City, Metro Manila covered by TCT No. 3475 and registered under the name of Arizona Haulers, Inc. which is presently mortgaged with your bank.

The borrowers have authorized IBA FINANCE CORP. to pay Premiere Bank from the proceeds of their loan. The disbursement of the loan, however is subject to the annotation of our mortgage lien on the said property and final verification that said title is free from any other lien or encumbrance other than that of your company and IBA Finance Corporation.

In order to register the mortgage, please entrust to us the owner's duplicate copy of TCT No. 3475, current tax declaration, realty tax receipts for the current year and other documents necessary to affect annotation thereof.

Upon registration of our mortgage, we undertake to remit directly to you or your authorized representative the amount equivalent to the Borrower's outstanding indebtedness to Premiere Bank as duly certified by your goodselves provided such an amount shall not exceed PESOS: SIX MILLION ONLY (P6,000,000.00) and any amount in excess of the aforestated shall be for the account of the borrowers. It is understood that upon receipt of payment, you will release to us the corresponding cancellation of your mortgage within five (5) banking days therefrom.

If the foregoing terms and conditions are acceptable to you, please affix your signature provided below and furnish us a copy of the Statement of Account of said borrowers.

On October 12, 1995, Premiere Bank sent a letter-reply<sup>[7]</sup> to Iba-Finance, informing the latter of its refusal to turn over the requested documents on the ground that Arizona had existing unpaid loan obligations and that it was the bank's policy to require full payment of all outstanding loan obligations prior to the release of mortgage documents. Thereafter, Premiere Bank issued to Iba-Finance a Final Statement of Account<sup>[8]</sup> showing Arizona's total loan indebtedness. On October 19, 1995, Panacor and Arizona executed in favor of Iba-Finance a promissory note in the amount of 7.5 million. Thereafter, Iba-Finance paid to Premiere Bank the amount of P6,235,754.79 representing the full outstanding loan account of Arizona. Despite such payment, Premiere Bank still refused to release the requested mortgage documents specifically, the owner's duplicate copy of TCT No. T-3475.<sup>[9]</sup>

On November 2, 1995, Panacor requested Iba-Finance for the immediate approval

and release of the remaining P2.5 million loan to meet the required monthly purchases from Colgate. Iba-Finance explained however, that the processing of the P2.5 million loan application was conditioned, among others, on the submission of the owner's duplicate copy of TCT No. 3475 and the cancellation by Premiere Bank of Arizona's mortgage. Occasioned by Premiere Bank's adamant refusal to release the mortgage cancellation document, Panacor failed to generate the required capital to meet its distribution and sales targets. On December 7, 1995, Colgate informed Panacor of its decision to terminate their distribution agreement.

On March 13, 1996, Panacor and Arizona filed a complaint for specific performance and damages against Premiere Bank before the Regional Trial Court of Pasig City, docketed as Civil Case No. 65577.

On June 11, 1996, Iba-Finance filed a complaint-in-intervention praying that judgment be rendered ordering Premiere Bank to pay damages in its favor.

On May 26, 1998, the trial court rendered a decision in favor of Panacor and Iba-Finance, the decretal portion of which reads:

WHEREFORE, judgment is hereby rendered in favor of the plaintiff Panacor Marketing Corporation and against the defendant Premiere Bank, ordering the latter to pay the former the following sums, namely:

- 1) P4,520,000.00 in addition to legal interest from the time of filing of the complaint until full payment;
- 2) P1,000,000.00 as and for exemplary damages;
- 3) P100,000.00 as and for reasonable attorney's fees; and
- 4) Costs of suit.

Similarly, judgment is hereby rendered in favor of plaintiff-in-intervention IBA-Finance Corporation as against defendant Premiere bank, as follows, namely:

- 1) Ordering defendant Premiere Bank to release to plaintiff-intervenor IBA-Finance Corporation the owner's duplicate copy of Transfer Certificate of Title No. 3475 registered in the name of Arizona Haulers, Inc. including the deed of cancellation of the mortgage constituted thereon;
- 2) Ordering the defendant Premiere Bank to pay to Intervenor IBA-Finance, the following sums, to wit:
- 3) P1,000,000.00 as and by way of exemplary damages; and
- 4) P100,000.00 as and for reasonable attorney's fees; and
- 5) Costs of suit.

For lack of sufficient legal and factual basis, the counterclaim of defendant Premiere Bank is DISMISSED.

SO ORDERED.

Premiere Bank appealed to the Court of Appeals contending that the trial court erred in finding, *inter alia*, that it had maliciously downgraded the credit-line of Panacor from P4.1 million to P2.7 million.

In the meantime, a compromise agreement was entered into between Iba-Finance and Premiere Bank whereby the latter agreed to return without interest the amount of P6,235,754.79 which Iba-Finance earlier remitted to Premiere Bank to pay off the unpaid loans of Arizona. On March 11, 1999, the compromise agreement was approved.

On June 18, 2003, a decision was rendered by the Court of Appeals which affirmed with modification the decision of the trial court, the dispositive portion of which reads:

WHEREFORE, premises considered, the present appeal is hereby DISMISSED, and the decision appealed from in Civil Case No. 65577 is hereby AFFIRMED with MODIFICATION in that the award of exemplary damages in favor of the appellees is hereby reduced to P500,000.00. Needless to add, in view of the Compromise Agreement plaintiff-intervenor IBA-Finance and defendant-appellant PREMIERE between plaintiff-intervenor IBA-Finance and defendant-appellant PREMIERE as approved by this Court per Resolution dated March 11, 1999, Our dispositive of the present appeal is only with respect to the liability of appellant PREMIERE to the plaintiff-appellees.

With costs against the defendant-appellant.

SO ORDERED.<sup>[10]</sup>

Hence the present petition for review, which raises the following issues:<sup>[11]</sup>

#### I

WHETHER OR NOT THE DECISION OF HONORABLE COURT OF APPEALS EXCEEDED AND WENT BEYOND THE FACTS, THE ISSUES AND EVIDENCE PRESENTED IN THE APPEAL TAKING INTO CONSIDERATION THE ARGUMENT OF PETITIONER BANK AND ADVENT OF THE DULY APPROVED COMPROMISE AGREEMENT BETWEEN THE PETITIONER BANK AND IBA FINANCE CORPORATION.

#### II

WHETHER OR NOT THE ISSUES THAT SHOULD HAVE BEEN RESOLVED BY THE HONORABLE COURT OF APPEALS, BY REASON OF THE EXISTENCE OF THE COMPROMISE AGREEMENT, IS LIMITED TO THE ISSUE OF ALLEGED BAD FAITH OF PETITIONER BANK IN THE DOWNGRADING OF THE LOAN AND SHOULD NOT INCLUDE THE RENDITION OF AN ADVERSE PRONOUNCEMENT TO AN ALREADY FAIT ACCOMPLI- ISSUE ON THE REFUSAL OF THE BANK TO RECOGNIZE THE TAKE-OUT OF THE LOAN AND THE RELEASE OF TCT NO. 3475.

#### III

WHETHER OR NOT PETITIONER ACTED IN BAD FAITH IN THE DOWNGRADING OF THE LOAN OF RESPONDENTS TO SUPPORT AN AWARD OF ACTUAL AND EXEMPLARY DAMAGES NOW REDUCED TO P500,000.00.

#### IV

WHETHER OR NOT THERE IS BASIS OR COMPETENT PIECE OF EVIDENCE PRESENTED DURING THE TRIAL TO SUPPORT AN AWARD OF ACTUAL DAMAGES OF P4,520,000.00.

Firstly, Premiere Bank argues that considering the compromise agreement it entered with Iba-Finance, the Court of Appeals should have ruled only on the issue of its alleged bad faith in downgrading Panacor's credit line. It further contends that the Court of Appeals should have refrained from making any adverse pronouncement on the refusal of Premiere Bank to recognize the take-out and its subsequent failure to release the cancellation of the mortgage because they were rendered *fait accompli* by the compromise agreement.

We are not persuaded.

In a letter-agreement<sup>[12]</sup> dated October 5, 1995, Iba-Finance informed Premiere Bank of its approval of Panacor's loan application in the amount of P10 million to be secured by a real estate mortgage over a parcel of land covered by TCT No. T-3475. It was agreed that Premiere Bank shall entrust to Iba-Finance the owner's duplicate copy of TCT No. T-3475 in order to register its mortgage, after which Iba-Finance shall pay off Arizona's outstanding indebtedness. Accordingly, Iba-Finance remitted P6,235,754.79 to Premiere Bank on the understanding that said amount represented the full payment of Arizona's loan obligations. Despite performance by Iba-Finance of its end of the bargain, Premiere Bank refused to deliver the mortgage document. As a consequence, Iba-Finance failed to release the remaining P2.5 million loan it earlier pledged to Panacor, which finally led to the revocation of its distributorship agreement with Colgate.

Undeniably, the not-so-forthright conduct of Premiere Bank in its dealings with respondent corporations caused damage to Panacor and Iba-Finance. It is error for Premiere Bank to assume that the compromise agreement it entered with Iba-Finance extinguished all direct and collateral incidents to the aborted take-out such that it also cancelled its obligations to Panacor. The unjustified refusal by Premiere Bank to release the mortgage document prompted Iba-Finance to withhold the release of the P2.5 million earmarked for Panacor which eventually terminated the distributorship agreement. Both Iba-Finance and Panacor, which are two separate and distinct juridical entities, suffered damages due to the fault of Premiere Bank. Hence, it should be held liable to each of them.

While the compromise agreement may have resulted in the satisfaction of Iba-Finance's legal claims, Premiere Bank's liability to Panacor remains. We agree with the Court of Appeals that the "present appeal is only with respect to the liability of appellant Premiere Bank to the plaintiffs-appellees (Panacor and Arizona)"<sup>[13]</sup> taking into account the compromise agreement.