

FIRST DIVISION

[G.R. No. 168258, August 17, 2015]

**RICARDO V. QUINTOS, PETITIONER, VS. DEVELOPMENT BANK
OF THE PHILIPPINES AND PHILIPPINE NATIONAL BANK,
RESPONDENTS.**

D E C I S I O N

LEONARDO-DE CASTRO, J.:

Before the Court is a Petition for Review on *Certiorari* filed by petitioner Ricardo V. Quintos (Quintos) under Rule 45 of the Rules of Court, seeking the reversal and setting aside of: (1) the Decision^[1] dated November 30, 2004 of the Court of Appeals in CA-G.R. CV No. 78201, which, in turn, reversed and set aside the Decision^[2] dated June 13, 2002 of the Regional Trial Court (RTC) of Makati City, Branch 134 in Civil Case No. 88-508; and (2) the Resolution^[3] dated May 27, 2005 of the appellate court in the same case denying Quintos's Motion for Reconsideration. The Court of Appeals upheld the validity of the contracts of loan, real estate mortgage, pledge, and surety executed between Golden Country Farms, Inc. (GCFI) and Quintos, on one hand, and the National Investment and Development Corporation (NIDC)/Philippine National Bank (PNB) and Development Bank of the Philippines (DBP), on the other hand; and dismissed the complaint for annulment of contracts and damages instituted by Quintos before the RTC.

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THE ANTECEDENTS

The undisputed antecedents

GCFI, formerly known as Alta Tierra Agri-Business, Inc., is a corporation existing under Philippine laws, primarily engaged in livestock production and agri-business. Quintos is the majority stockholder of GCFI, with 74,233 shares of stock, covered by Stock Certificate Nos. 001, 002, 003, and 004 in his name, representing about 74% of all GCFI shares issued, outstanding, and entitled to vote. Quintos had served as President of GCFI from 1975 to 1977, as Director from 1977 to 1982, and again as President from 1986 to 1987.

In 1975, the NIDC approved an application for financial assistance of GCFI in the amount of \$5,700,000.00, or its estimated equivalent of P43,000,000.00. According to the application of GCFI, the loan proceeds would be used for the integration and expansion of the poultry farm of GCFI in Mamburao, Occidental Mindoro, particularly for: (a) restructuring of existing liabilities of GCFI; (b) construction of breeder and broiler houses; and (c) acquisition of machinery and equipment for an integrated poultry operation. To secure the loan, mortgage and pledge were constituted on real and personal property owned by GCFI and Quintos personally, including all of Quintos's shares of stock in GCFI and the machinery and equipment which GCFI

would acquire using the loan proceeds. Quintos also bound himself as surety for the obligations of GCFI to NIDC for the said loan.

The following year, in 1976, GCFI applied for and was granted by DBP an agricultural loan amounting to P57,000,000.00 for the acquisition of machinery and equipment and construction of broiler houses.

NIDC and DBP agreed to share on a *pari passu* basis the same securities earlier given by GCFI and Quintos for the NIDC loan, and the contracts of mortgage and pledge were amended accordingly adding DBP as party and the amount of loan extended by DBP as consideration.

The proceeds of both NIDC and DBP loans were released. Thereafter, Armando T. Romualdez (Romualdez) took over management of GCFI as President, but Quintos continued to serve as Director of the corporation.

By the end of the 1970s, GCFI was suffering from financial problems due to poor sales, low production, and weak liquidity problems. Of its loan obligations to NIDC and DBP, GCFI was only able to pay P2,200,000.00. On August 1, 1980, NIDC and DBP took over management of GCFI.

The EDS A People Power Revolution took place in February 1986, which resulted in the ouster of former President Ferdinand E. Marcos and the assumption to power of former President Corazon C. Aquino.

As of June 30, 1986, the loan obligations of GCFI to NIDC and DBP totaled P364,938,010.00.

Upon Quintos's initiative, Terms of Reference (TOR)^[4] were drawn up allowing him to assume the positions of Director and President of GCFI for 90 days, subject to several conditions. Quintos signed his *conforme* to the TOR.

With the planned dissolution of NIDC on November 30, 1986, a Deed of Transfer^[5] was executed on November 28, 1986 by which NIDC assigned, transferred, and conveyed all its rights, title, and interests in and to all of its assets to PNB. The account of GCFI was listed as an investment of NIDC.

Proclamation No. 50 dated December 8, 1986 and its amendment by Proclamation No. 50-A dated December 15, 1986 then created the Asset Privatization Trust (APT) to take over title to and possession of, conserve, provisionally manage, and dispose of the non-performing assets of the National Government. Administrative Order No. 14 dated February 3, 1987 approved the identification of and transfer to the National Government of certain assets and liabilities of PNB and DBP. Through separate Deeds of Transfer^[6] executed on February 27, 1987, PNB and DBP assigned, transferred, and conveyed in favor of the National Government all their rights, titles, and interests in and to certain assets, in consideration of the assumption by the National Government of certain liabilities of the said banks. The loans of GCFI were among the non-performing assets of PNB and DBP transferred to the National Government. A Trust Agreement was executed on February 28, 1987 whereby the National Government constituted APT as its trustee over the Trust Properties, which included the loans to GCFI.

On July 27, 1987, the Presidential Commission on Good Government (PCGG) issued a Writ of Sequestration^[7] in I.S. No. 01, with the following directive:

[A]ll assets, properties, records and documents, including all the shareholdings, rights and interests therein, of the following stockholders in GOLDEN COUNTRY FARMS, INC. are hereby sequestered:

1. RICARDO V. QUINTOS
2. ARMANDO T. ROMUALDEZ
3. VILMA A. ROMUALDEZ
4. ALFREDO T. ROMUALDEZ
5. NELIA T. GONZALEZ

it appearing from the evidence at hand that all the foregoing assets, properties and stockholdings are ill-gotten, the same having been acquired by the foregoing stockholders directly or indirectly thru fraudulent and illegal means, and therefore fall within the purview of said Executive Orders 1 and 2.

You are hereby directed to cease and desist from doing and performing any act, directly or indirectly which may cause the sale, transfer, conveyance and encumbrance of the aforementioned assets, properties, records and documents, and shareholdings pending further order from this Commission.

Just a few days later, on August 7, 1987, PNB, DBP, and APT jointly filed a Petition for Extrajudicial Foreclosure Sale^[8] requesting the Clerk of Court and *Ex-Officio* Sheriff of the RTC of Occidental Mindoro to take possession of the mortgaged properties of GCFI and Quintos, consisting of real properties and chattel, and to sell the same at a public auction to satisfy the indebtedness of GCFI to PNB and DBP in the amounts of P233,255,249.43 and P322,272,538.51, respectively, or in the total amount of P555,527,787.94, as of June 30, 1987. The public auction sale of the mortgaged properties was scheduled on April 7, 1988.^[9]

As countermeasure, Quintos filed on April 4, 1988 with the RTC of Makati City, Branch 134 a Complaint^[10] for the annulment of the loan and mortgage contracts with prayer for the issuance of a writ of preliminary injunction, which was docketed as Civil Case No. 88-508. The RTC issued on April 5, 1988 a Temporary Restraining Order^[11] enjoining PNB, DBP, and the Provincial Sheriff of Mamburao, Occidental Mindoro and/or his deputies from proceeding with the scheduled extrajudicial foreclosure sale of the mortgaged properties of GCFI and Quintos. After hearing, the RTC issued an Order^[12] dated April 27, 1988 granting Quintos's prayer for issuance of a writ of preliminary injunction conditioned upon his filing of a bond in the amount of P3,000,000.00. Upon Quintos's compliance with the bond requirement, the RTC issued the Writ of Preliminary Injunction^[13] on May 2, 1988 ordering PNB, DBP, and the Provincial Sheriff of Mamburao, Occidental Mindoro to refrain from proceeding with the extrajudicial foreclosure on the mortgages until further orders from the court. In an Order^[14] dated October 17, 1988, the RTC denied the Motion

to Dissolve Writ of Preliminary Injunction filed by PNB and DBP.

Quintos filed a Motion to Admit Amended Complaint, together with the Amended Complaint.^[15] Despite the opposition^[16] of PNB, the RTC issued an Order^[17] dated September 6, 1988 admitting the Amended Complaint.

While Civil Case No. 88-508 was pending before the RTC, the National Government, through APT, and Quintos entered into a Memorandum of Agreement (MOA)^[18] dated February 26, 1992 which authorized Quintos to take possession, preserve, and protect the mortgaged properties, subject to certain conditions on Quintos's part, such as his submission of a program of conservation and protection of the said properties; submission of reports as may be required by APT on the status of the properties; assuming the expenses incurred in connection with the preservation and protection of the properties; posting of a performance bond of P5,000,000.00; and the detailing of security guards at the premises to secure the properties during the effectivity of the Agreement on his own account. The MO A was approved by the RTC in an Order^[19] dated March 13, 1992. Two years later, however, APT, through a Notice of Rescission^[20] dated July 12, 1994, informed Quintos that the APT Board of Trustees decided to rescind the MOA due to Quintos's failure to submit a program of conservation and protection of the properties and to reimburse APT for the expenses it incurred for the detail of security guards at the premises.

In the meantime, PNB filed with the RTC a Motion to Implead^[21] APT in Civil Case No. 88-508, which the RTC denied in an Order^[22] dated July 22, 1992. The subsequent Manifestation and Motion for Reconsideration^[23] of PNB was likewise denied by the RTC in its Order^[24] dated October 12, 1992. PNB and DBP then elevated the said RTC Orders to the Court of Appeals through a joint Petition for *Certiorari*, docketed as CA-G.R. SP No. 29627. The Court of Appeals, in a Decision^[25] dated March 10, 1993, dismissed the said Petition taking into account that APT was never a party or privy to any of the contracts sought to be annulled; and APT, by presenting the MOA it executed with Quintos for approval by the RTC, already voluntarily submitted itself to the jurisdiction of the trial court and agreed to be bound by whatever judgment the court *a quo* may render in Civil Case No. 88-508. The appellate court further mused that the interest of APT in the mortgaged properties was, at best, only temporary and might not even last until the termination of the case. The Court of Appeals denied the Motion for Reconsideration of PNB and DBP in a Resolution^[26] dated July 15, 1993. To assail the judgment of the Court of Appeals in CA-G.R. SP No. 29027, PNB and DBP filed before the Court a Petition for Review on *Certiorari*, docketed as G.R. No. 111152. The Court denied the said Petition in a Resolution dated January 29, 1996, which became final and executory on April 1, 1996.^[27] After the lapse of several years and the rescission by APT of the MOA with Quintos, APT itself filed before the RTC a Motion for Intervention^[28] in Civil Case No. 88-508. In Resolutions dated December 18, 1997^[29] and April 20, 1998,^[30] the RTC denied the Motion for Intervention and Motion for Reconsideration of APT, respectively.

Quintos's position: The loan and collateral contracts are void ab initio.

Quintos alleged that the loan and collateral documents are void *ab initio* because he only executed the same under duress and said contracts are completely simulated for lack of consideration.

According to Quintos, sometime in 1973 or 1974, he was forced and coerced by Romualdez, the brother of then First Lady Imelda R. Marcos, into selling his shares of stock in GCFI to Romualdez. Quintos was left with no choice but to accede so he surrendered his certificates of shares of stock in GCFI to Romualdez but did not execute any transfer documents because he was not yet paid for the shares as promised. Romualdez then, without authority, negotiated loans on behalf of GCFI with NIDC and DBP, offering as security, together with the assets of GCFI, real property and the shares of stock in GCFI owned by Quintos. NIDC and DBP were sufficiently informed and fully aware of the foregoing facts, but in connivance with Romualdez, still approved the loans in the total amount of P100,000,000.00. The loan proceeds were released by NIDC and DBP in tranches to Romualdez but were not turned over to or infused into GCFI, and instead, were misspent and misappropriated by Romualdez for his personal use. Despite being the majority shareholder in GCFI, Quintos was not able to participate in the management of GCFI as Romualdez and his group were in control. Romualdez and his group mismanaged GCFI and wasted corporate assets, leaving the corporation bankrupt.

Quintos signed the loan and collateral documents and delivered the certificates of title to his real properties and certificates of shares of stock in GCFI only in 1977, long after the loan proceeds were already released to Romualdez, and against Quintos's free will because Romualdez constantly employed duress, threats, and intimidation on him. No board meeting or stockholders' meeting was ever held concerning the loans and the Secretary's Certificates and other corporate documents in support of the loan transactions were all simulated.

Romualdez never paid Quintos for the latter's shares of stock in GCFI, even when other persons had already interceded in Quintos's behalf to collect from Romualdez. No payments were also made to NIDC and DBP for the loans, yet DBP extended additional loans to GCFI in the amounts of P10,000,000.00 and P4,000,000.00 on August 14, 1980 and May 13, 1981, respectively. Quintos already cautioned the creditors of GCFI about Romualdez's illegal activities. Quintos also tried to seek the assistance of former President Marcos since Romualdez was the latter's brother-in-law. Former President Marcos promised to help, but his wife, former First Lady Imelda, made a telephone call to Quintos warning him not to spread ugly rumors against her brother Romualdez and saying that Romualdez would pay him. Two days after former First Lady Imelda's call, Quintos was picked up by members of the Philippine Constabulary Metropolitan Command (METROCOM) and brought before General Fabian C. Ver who advised Quintos not to complain anymore.

That NIDC and DBP gave Romualdez special treatment could be gleaned from the fact that said creditors never took action on the loans during the entire period of Martial Law, only foreclosing on the mortgage properties after the assumption of former President Aquino.

Even when the PCGG initially included Quintos among the respondents in I.S. No. 01 against whom it issued the Writ of Sequestration^[31] dated July 27, 1987, the PCGG eventually issued a Resolution^[32] dated September 8, 1987, pertinent portions of