

SECOND DIVISION

[G.R. No. 171590, February 12, 2014]

BIGNAY EX-IM PHILIPPINES, INC., PETITIONER, VS. UNION BANK OF THE PHILIPPINES, RESPONDENT.

[G.R. No. 171598]

UNION BANK OF THE PHILIPPINES, PETITIONER, VS. BIGNAY EX-IM PHILIPPINES, INC., RESPONDENT.

D E C I S I O N

DEL CASTILLO, J.:

The gross negligence of the seller in defending its title to the property subject matter of the sale – thereby contravening the express undertaking under the deed of sale to protect its title against the claims of third persons resulting in the buyer’s eviction from the property – amounts to bad faith, and the buyer is entitled to the remedies afforded under Article 1555 of the Civil Code.

Before us are consolidated Petitions for Review on *Certiorari*^[1] assailing the August 25, 2005 Decision^[2] of the Court of Appeals (CA) in CA-G.R. CV No. 67788 as well as its February 10, 2006 Resolution^[3] denying the parties’ respective motions for reconsideration.

Factual Antecedents

In 1984, Alfonso de Leon (Alfonso) mortgaged in favor of Union Bank of the Philippines (Union Bank) real property situated at Esteban Abada, Loyola Heights, Quezon City, which was registered in his and his wife Rosario’s name and covered by Transfer Certificate of Title (TCT) No. 286130 (TCT 286130).

The property was foreclosed and sold at auction to Union Bank. After the redemption period expired, the bank consolidated its ownership, whereupon TCT 362405 was issued in its name in 1987.

In 1988, Rosario filed against Alfonso and Union Bank, Civil Case No. Q-52702 for annulment of the 1984 mortgage, claiming that Alfonso mortgaged the property without her consent, and for reconveyance.

In a September 6, 1989 Letter-Proposal,^[4] Bignay Ex-Im Philippines, Inc. (Bignay), through its President, Milagros Ong Siy (Siy), offered to purchase the property. The written offer stated, among others, that –

The property is the subject of a pending litigation between Rosario de Leon and Union Bank for nullification of the foreclosure before the

Regional Trial Court of Quezon City. Should this offer be approved by your management, we suggest that instead of the usual conditional sale, a deed of absolute sale be executed to document the transaction in our favor subject to a mortgage in favor of the bank to secure the balance.

This documentation is intended to isolate the property from any lis pendens that the former owner may annotate on the title and to allow immediate reconstitution thereof since the original Torrens title was burned in 1988 when the City Hall housing the Register of Deeds of Quezon City was gutted by fire.^[5]

On December 20, 1989, a Deed of Absolute Sale^[6] was executed by and between Union Bank and Bignay whereby the property was conveyed to Bignay for P4 million. The deed of sale was executed by the parties through Bignay's Siy and Union Bank's Senior Vice President Anthony Robles (Robles). One of the terms of the deed of sale is quoted below:

Section 1. The VENDEE hereby recognizes that the Parcel/s of Land with improvements thereon is acquired through foreclosure proceedings and agrees to buy the Parcel/s of Land with improvement[s] thereon in its present state and condition. The VENDOR therefore does not make any x x x representations or warranty with respect to the Parcel/s of Land but that it will defend its title to the Parcel/s of Land with improvement[s] thereon against the claims of any person whomsoever.^[7]

On December 27, 1989, Bignay mortgaged the property to Union Bank, presumably to secure a loan obtained from the latter.

On December 12, 1991, a Decision^[8] was rendered in Civil Case No. Q-52702, decreeing as follows:

WHEREFORE, premises above considered, finding that defendant Alfonso de Leon, Jr. had alone executed the mortgage (Exh. 7) on their conjugal property with T.C.T. No. 286130 (Exh. L) upon a forged signature (Exh. M-1) of his wife plaintiff Rosario T. de Leon, the Court hereby declares NULL and VOID the following documents:

1. Said Mortgage Contract dated April 11, 1984 (Exh. 7) executed by and between defendants Alfonso de Leon, Jr. alone and Union Bank of the Philippines;
2. Sheriff's Sale dated June 12, 1985 (Exh. F);
3. T.C.T. No. 362405 (Exh. O) issued in the name of defendant Union Bank on June 10, 1987 which replaced the said T.C.T. No. 286130;
4. Sale and mortgage by and between Union Bank and Bignay Ex-Im Phil. Inc. on December 27, 1989 over the subject conjugal property as annotated on T.C.T. No. 362405 (Exh. O).

Further, the Court hereby declares plaintiff Rosario T. de Leon the owner still of the undivided ONE HALF (1/2) of the subject property covered by T.C.T. No. 286130.

The order dated February 2, 1988 granting a writ of possession in favor of Union Bank is hereby SET ASIDE and QUASHED.

Defendant Alfonso de Leon, Jr. is hereby ordered to pay his co-defendant Union Bank of the Philippines the sum of his P1M loan with interest from the time the same was extended to him which is hereby charged against his other undivided share of ONE HALF (½) of the subject property with T.C.T. No. 286130.

No damages is [sic], however, adjudicated against defendant Union Bank of the Philippines there being no substantial evidence that it is in complicity with defendant Alfonso de Leon, Jr. in the presentation of the forged signature of his wife plaintiff on the Special Power of Attorney (Exh. M).

Without cost, except for the professional fee, if any, for the examination of the forged signature (Exh. M-1) which shall be paid by defendant Alfonso de Leon, Jr.

SO ORDERED.^[9]

Union Bank appealed the above Decision with the CA. It likewise sought a new trial of the case, which the trial court denied. The CA appeal was dismissed for failure to file appellant's brief; the ensuing Petition for Review with this Court was similarly denied for late filing and payment of legal fees.^[10]

Union Bank next filed with the CA an action to annul the trial court's December 12, 1991 judgment.^[11] In a September 9, 1993 Resolution, however, the CA again dismissed the Petition^[12] for failure to comply with Supreme Court Circular No. 28-91.^[13] The bank's Motion for Reconsideration was once more denied.^[14]

This time, Bignay filed a Petition for annulment of the December 12, 1991 Decision, docketed as CA-G.R. SP No. 33901. In a July 15, 1994 Decision,^[15] the CA dismissed the Petition. Bignay's resultant Petition for *Certiorari* with this Court suffered the same fate.^[16]

Meanwhile, as a result of the December 12, 1991 Decision in Civil Case No. Q-52702, Bignay was evicted from the property; by then, it had demolished the existing structure on the lot and begun construction of a new building.

Ruling of the Regional Trial Court

On March 21, 1994, Bignay filed Civil Case No. 94-1129 for breach of warranty against eviction under Articles 1547 and 1548 of the Civil Code, with damages, against Union Bank and Robles. The case was assigned to Branch 141 of the Makati Regional Trial Court (RTC). Bignay alleged in its Complaint^[17] that at the time of the sale, the title to the property was lost due to fire at the Register of Deeds; that at the time of the sale, Union Bank represented that there were no liens or encumbrances over the property other than those annotated on the title, and that a

reconstitution of the lost title would be made; that on these assurances, Bignay began and completed construction of a building on the property; that it turned out that the property was the subject of a case by Rosario, and Bignay began to receive copies of court orders and pleadings relative to the case; that it issued a demand to Union Bank for the latter to make good on its warranties; that despite such demands, it appeared that Bignay was in jeopardy of losing the property as a result of Union Bank's lack of candor and bad faith in not disclosing the pending case. Bignay prayed to be awarded the following:

1. P 54,000,000.00 as actual damages;
2. P 2,000,000.00 as exemplary damages;
3. P 1,000,000.00 by way of attorney's fees; and
4. Costs of suit.

In a March 10, 1995 Order^[18] of the trial court, Robles was dropped as party defendant upon agreement of the parties and in view of Union Bank's admission and confirmation that it

had authorized all of Robles's acts relative to the sale.

Union Bank interposed a Motion to Dismiss^[19] grounded on lack of or failure to state a cause of action, claiming that it made no warranties in favor of Bignay when it sold the property to the latter on December 20, 1989. The trial court deferred the resolution of the motion on finding that the ground relied upon did not appear to be indubitable. Union Bank thus filed its Answer *Ad Cautelam*,^[20] where it alleged that Bignay was not an innocent purchaser for value, knowing the condition of the property as evidenced by Siy's September 6, 1989 letter-proposal to purchase the same. It interposed a counterclaim as well, grounded on two promissory notes signed by Siy in favor of the bank – 1) Promissory Note No. 90-1446 dated December 20, 1990 for the amount of P1.5 million payable on demand with annual interest of 33%, and 2) Promissory Note No. 91-0286 dated February 26, 1991 for the amount of P2 million payable on demand with annual interest of 30% – which resulted in outstanding liabilities, inclusive of interest and penalties, in the total amount of more than P10.4 million as of December 20, 1996.

During trial, Siy testified that she was a client of Union Bank, and that she was a regular buyer of some of the bank's acquired assets. She admitted that she maintained a close business relationship with Robles, who would identify cheap bank properties for her and then facilitate or assist her in the acquisition thereof. To do this, she claimed that she signed papers in blank and left them with Robles, who would then use the same in preparing the necessary documents, such as the supposed September 6, 1989 letter-proposal, which Siy claimed she knew nothing about.^[21]

Siy further testified that for his services, Robles was given a 3% commission each time she obtained a loan from Union Bank. Moreover, she claimed that she gifted Robles with shares of stock in one of her corporations, International General Auto Parts Corporation (IGAPC), and made him an incorporator and director thereof.^[22]

Finally, Siy testified that the existing structure on the subject property was demolished and a new one was constructed at a cost of P20 million. From the new structure, Bignay earned monthly rental income of P60,000.00, until the lessee was evicted on account of the execution of the Decision in Civil Case No. Q-52702.^[23]

On the other hand, Robles – testifying for Union Bank – denied that he prepared the September 6, 1989 letter-proposal. He added that Siy was apprised of the then pending Civil Case No. Q-52702. He also admitted that Siy gave him shares of stock in IGAPC and made him an incorporator and director thereof.^[24]

Evidence on Union Bank’s counterclaim was likewise received by the trial court.

On March 21, 2000, the trial court rendered its Decision^[25] in Civil Case No. 94-1129, which decreed thus:

WHEREFORE, decision is hereby rendered ordering the defendant to pay plaintiff the sum of Four Million (P4,000,000.00) Pesos representing the cost of the land and Twenty Million (P20,000,000.00) Pesos representing the value of the building constructed on the subject land, and the costs of this suit.

The counterclaim interposed by defendant is hereby dismissed without prejudice.

SO ORDERED.^[26]

The trial court found that Union Bank’s Senior Vice President, Robles, maintained a secret alliance and relationship of trust with Bignay’s Siy, whereby Robles would look out for desirable properties from the bank’s asset inventory, recommend them to Siy, then facilitate the negotiation, sale and documentation for her. In return, he would receive a 3% commission from Siy, or some other benefit; in fact, Siy made him an incorporator and director of one of her corporations, IGAPC. The trial court believed Siy’s claim that she signed papers in blank and left them with Robles in order to facilitate the negotiation and purchase of bank properties which they both considered to be cheap and viable. In this connection, the trial court concluded that it was Robles – and not Siy – who prepared the September 6, 1989 letter-proposal on a piece of paper signed in blank by Siy, and that even though the pending Civil Case No. Q-52702 was mentioned in the letter-proposal, Siy in fact had no knowledge thereof. This is proved by the fact that she proceeded to construct a costly building on the property; if Siy knew of the pending Civil Case No. Q-52702, it is highly doubtful that she would do so.

The trial court thus declared that Union Bank, through Robles, acted in bad faith in selling the subject property to Bignay; for this reason, the stipulation in the December 20, 1989 deed of sale limiting Union Bank’s liability in case of eviction cannot apply, because under Article 1553 of the Civil Code, “[a]ny stipulation exempting the vendor from the obligation to answer for eviction shall be void, if he acted in bad faith.” Moreover, it held that in its handling of Civil Case No. Q-52702, the bank was guilty of gross negligence amounting to bad faith, which thus contravened its undertaking in the deed of sale to “defend its title to the Parcel/s of Land with improvement thereon against the claims of any person whatsoever.”