

## **FIRST DIVISION**

**[ G.R. No. 154390, March 17, 2014 ]**

**METROPOLITAN FABRICS, INC. AND ENRIQUE ANG,  
PETITIONERS, VS. PROSPERITY CREDIT RESOURCES INC.,  
DOMINGO ANG AND CALEB ANG, RESPONDENTS.**

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

**BERSAMIN, J.:**

The genuineness and due execution of a deed of real estate mortgage that has been acknowledged before a notary public are presumed. Any allegation of fraud and forgery against the deed must be established by clear and competent evidence.

#### **The Case**

In this appeal, the mortgagors, who were the plaintiffs in the trial court, seek to reverse and undo the judgment promulgated on July 23, 2002,<sup>[1]</sup> whereby the Court of Appeals (CA) reversed and set aside the decision rendered in their favor on July 6, 1999 by the Regional Trial Court (RTC), Branch 107, in Quezon City (declaring the real estate mortgage and the foreclosure by respondents null and void; and ordering the reconveyance of the foreclosed properties to petitioners),<sup>[2]</sup> and dismissed their complaint as well as the counterclaim of respondents.

#### **Antecedents**

The CA summarized the antecedents as follows:

Metropolitan Fabrics, Incorporated, a family corporation, owned a 5.8 hectare industrial compound at No. 685 Tandang Sora Avenue, Novaliches, Quezon City which was covered by TCT No. 241597. Pursuant to a P2 million, 10-year 14% per annum loan agreement with Manphil Investment Corporation (Manphil) dated April 6, 1983, the said lot was subdivided into 11 lots, with Manphil retaining four lots as mortgage security. The other seven lots, now covered by TCT Nos. 317699 and 317702 to 317707, were released to MFI.

In July 1984, MFI sought from PCRI a loan in the amount of P3,443,330.52, the balance of the cost of its boiler machine, to prevent its repossession by the seller. PCRI, also a family-owned corporation licensed since 1980 to engage in money lending, was represented by Domingo Ang ("Domingo") its president, and his son Caleb, vice-president. The parties knew each other because they belonged to the same family association, the Lioc Kui Tong Fraternity.

The decision noted that on the basis only of his interview with Enrique, feedback from the stockholders and the Chinese community, as well as information given by his own father Domingo, and without further checking on the background of Enrique and his business and requiring him to submit a company profile and a feasibility study of MFI, Caleb recommended the approval of the P3.44 million with an interest ranging from 24% to 26% per annum and a term of between five and ten years (Decision, p. 5). According to the court, it sufficed for Caleb that Enrique was a well-respected Chinese businessman, that he was the president of their Chinese family association, and that he had other personal businesses aside from MFI, such as the Africa Trading.

The court gave credence to the uncorroborated lone testimony of Enrique's daughter Vicky that on August 3, 1984, even before the signing of the mortgage and loan documents, PCRI released the P3.5 million loan to MFI. It found that the blank loan forms, consisting of the real estate mortgage contract, promissory note, comprehensive surety agreement and disclosure statement, which Domingo himself handed to Enrique, "had no entries specifying the rate of interest and schedules of amortization." On the same day, to reciprocate the gesture of PCRI, Enrique, together with his wife Natividad Africa, vice-president, and son Edmundo signed the blank forms "at their office at 685 Tandang Sora Avenue, Novaliches, Quezon City." The signing was allegedly witnessed by Vicky, Ellen and Alice, all surnamed Ang, without any PCRI representative present. Immediately thereafter, Enrique and Vicky proceeded to the PCRI office at 1020 Soler St., Binondo.

The court a quo also accepted Vicky's account that it was in order to return the trust of Domingo and Caleb and their gesture of the early release of the loan that Enrique and Vicky entrusted to them their seven (7) titles, with an aggregate area of 3.3665 hectares, to wit: TCT Nos. 317699, 317702, 317703, 317704, 317705, 317706 and 1317707. She testified that they left it to defendants to choose from among the 7 titles those which would be sufficient to secure the P3.5 million. She also admitted, however, that they had an appraisal report dated June, 1984 of the said properties made by the Integrated Appraisal Corporation which put the value of four (4) of the said properties at P6.8 million, now the subject of the action for reconveyance, while the aggregate value of all seven lots was P11 million.

Vicky further stated that it was agreed that once PCRI had chosen the lots to be covered by the mortgage, the defendants would return the remaining titles to the plaintiffs. Plaintiffs also secured an additional loan of about P199,000.00 to pay for real estate taxes and other expenses. Significantly, Vicky testified that the plaintiffs delivered to PCRI twenty-four (24) checks, bearing no dates and amounts, to cover the amortization payments, all signed in blank by Enrique and Natividad.

In September 1984, the first amortization check bounced for insufficient fund due to MFI's continuing business losses. It was then that the appellees allegedly learned that PCRI had filled up the 24 blank checks with dates and amounts that reflected a 35% interest rate per annum,

instead of just 24%, and a two-year repayment period, instead of 10 years. Vicky avers that her strong protest caused PCRI to desist from depositing the other 23 checks (TSN, April 21, 1998, p. 15), and that it was about this time that PCRI finally furnished MFI with its copy of the promissory note and the disclosure statement.

Vicky asserted that plaintiffs-appellees found the terms reflected in the loan documents to be prohibitive, burdensome and unconscionable, and that had they known them when they took out the loan on August 3, 1984, they could either have (1) negotiated/bargained or (2) rejected the terms of the loan and withdrawn the loan application. Plaintiffs thereafter repeatedly asked the defendants to return the rest of the titles in excess of the required collateral to which defendants allegedly routinely responded that their committee was still studying the matter. Vicky even added that Caleb assured Vicky that PCRI would also lower the rate of interest to conform to prevailing commercial rate. Meanwhile, due to losses plaintiffs' business operations stopped.

Vicky also testified that talks were held in earnest in 1985 between Domingo and Enrique as well as between Vicky and Caleb concerning the possible offsetting of the loan by ceding some of their properties to PCRI. On February 28, 1986, Vicky wrote to defendants, referring to a meeting held on February 11, 1986 and reiterating her request for the offsetting. The letter stated that since August, 1985, she had been asking for the offsetting of their properties against the loan. Caleb had sought a report on the fair market value of the seven lots. Also, he sought the assignment to PCRI of the rentals payable of plaintiffs' tenant, Bethlehem Knitting Company up to 1987. Vicky admitted that plaintiffs furnished Caleb on March 11, 1986 a copy of the 1984 Appraisal Report prepared by the Integrated Appraisal Corporation for the offsetting agreement.

PCRI's account statement dated February 12, 1986 showed that MFI's total loan obligation amounted to P4,167,472.71 (Exh. "G"). The March 25, 1986 statement from PCRI, however, showed that all seven (7) titles were placed as collateral for their P3.5 million loan. MFI maintained that per their appraisal report, four of the properties were already worth P6.5 million while the three other lots were valued around P4.6 million.

Vicky also claimed that Domingo and Caleb tried to appease the plaintiffs by assuring them that they would return the rest of the titles anytime they would need them, and that they could use them to secure another loan from them or from another financing company. They would also reconsider the 35% interest rate, but when the discussion shifted to the offsetting of the properties to pay the loan, the defendants' standard answer was that they were still awaiting the feedback of their committee.

On September 4, 1986, Enrique received a Notice of Sheriff's Sale dated August 29, 1986, announcing the auction of the seven lots on September 24, 1986 due to unpaid indebtedness of P10.5 million. After Vicky explained to her father Enrique in Chinese that the defendants were auctioning all their seven lots, he became frantic, was unable to take his

lunch, and remained silent the whole afternoon. Later that night he fell ill and became delirious. His blood pressure shot up to 200/100 and he was rushed to the Metropolitan Hospital where he fell into a coma and stayed in the intensive care unit for four (4) days. Vicky claimed that during moments of consciousness, her father would mutter the names of Domingo and Caleb and that they were unprofessional and dishonest people. He was discharged after 6 days.

Vicky insisted that prior to the auction notice, they never received any statement or demand letter from the defendants to pay P10.5 million, nor did the defendants inform them of the intended foreclosure. The last statement they received was dated February 12, 1986, and showed amount due of only P4,167,472.71. Vicky recalled that from June 1, 1986 to July 1986, they held several meetings to discuss the options available to them to repay their loan, such as the offsetting of their rent collectibles and properties to cover the amortizations and the loan balance.

MFI protested the foreclosure, and the auction was reset to October 6, 1986, then to October 16, 1986, and finally October 27, 1986 after they assured PCRI that they had found a serious buyer for three of the lots. In the meeting held on October 15, 1986 at defendants' office, the buyer, Winston Wang of Asia Cotton and his lawyer, Atty. Ismael Andres were present. It was agreed to release the mortgage over TCT Nos. 317705, 317706, and 317707 upon payment of P3.5 million. Winston Wang would pay to MFI P500,000.00 as down-payment, which MFI would in turn pay to PCRI as partial settlement of the P3.5 million loan. Winston Wang was given 15 days from October 16, 1986 to pay the P500,000.00. Vicky claims that these agreements were made verbally, although she kept notes and scribbles of them.

On January 19, 1987, Winston Wang confronted Vicky about their sale agreement and PCRI's refusal to accept their P3 million payment, because according to Caleb, the three lots had been foreclosed. Vicky was shocked, because the agreed 60-day period to pay the P3 million was to lapse on January 13, 1987 yet. Caleb himself put the particulars of the P500,000.00 payment in the cash voucher as partial settlement of the loan.

At the auction sale on October 27, 1986, PCRI was the sole bidder for P6.5 million. Vicky however also admitted that discussions continued on the agreement to release three lots for P3.5 million. The reduction of interest rate and charges and the condonation of the attorney's fees of P300,000.00 for the foreclosure proceedings were also sought. Present in these conferences were Enrique and Vicky, Domingo and Caleb, Winston Wang and his lawyer, Atty. Ismael Andres.

Upon defendants' continued failure to honor their agreement, Atty. Ismael Andres threatened to sue PCRI in a letter dated February 17, 1987 if they would not accept the P3 million payment of his client. Atty. Andres also sent them similar letters dated May 15, August 5 and 7, 1987, and after several more discussions, the defendants finally agreed

to accept the P3 million from Winston Wang, but under these conditions:  
a) MFI must pay the P300,000.00 attorney's fees paid for the foreclosure proceedings and the P190,000.00 for real estate taxes; b) PCRI shall issue the certificate of redemption over the three lots; c) plaintiffs shall execute a Memorandum of Undertaking concerning their right of way over the other properties, the lots being redeemed being situated along Tandang Sora Street.

Vicky also testified that although Wang would pay directly to Caleb, the plaintiffs pursued the transaction because of PCRI's promised to release the four (4) other remaining properties after the payment of P3.5 million loan principal as well as the interest in arrears computed at P3 million, or a total of P6.5 (TSN, January 10, 1996, p. 11).

MFI paid to PCRI P490,000.00 as agreed, and likewise complied with the required documentation. Winston Wang also paid the balance of P3 million for the three lots he was buying. The discussion then turned to how the plaintiffs' P3 million interest arrearages would be settled, which they agreed to be payable over a period of one year, from October 26, 1987 to October 26, 1988.

In October, 1988, however, plaintiffs were able to raise only P2 million. After a meeting at defendants' office, the period to pay was extended to October 26, 1989, but subject to 18% interest per annum, which Caleb however allegedly refused to put in writing. Plaintiffs were later able to raise P3 million plus P540,000.00 representing the 18% interest per annum. On October 26, 1989, Vicky and Enrique tendered the same to Caleb at his office. Caleb however became furious, and now insisted that the interest due since 1984 was already P7 million computed at 35% per annum.

On January 16, 1990 and again on March 5, 1990, PCRI sent the plaintiffs a letter demanding that they vacate the four remaining lots. Caleb was also now asking for P10.5 million. On March 19, 1990, Caleb executed an affidavit of non-redemption of TCT Nos. 317699, 317702, 317703 and 317704. On June 7, 1990, S.G. del Rosario, PCRI's vice-president, wrote Vicky reiterating their demand to vacate the premises and remove pieces of machinery, equipment and persons therein, which MFI eventually heeded.

Vicky also testified that the news of plaintiffs' predicament spread around the Chinese community and brought the family great humiliation. Enrique's health deteriorated rapidly and he was hospitalized. On October 9, 1991, they filed the case below. Meanwhile, Enrique died on November 15, 1993 after one year and one month at the Metropolitan Hospital. The family spent P300,000 - P400,000 for his funeral and burial expenses.

Plaintiffs now insist that P1 million in moral damages was not enough for the humiliation they suffered before the Chinese community, considering that Enrique was then the president of the Lioc Kui Tong Fraternity while Domingo and Caleb were members thereof. Plaintiffs were also deprived