

[G.R. No. 184556, February 22, 2012]

**CHINA BANKING CORPORATION, PETITIONER, VS. QBRO
FISHING ENTERPRISES, INC., RESPONDENT.**

D E C I S I O N

VILLARAMA, JR., J.:

Petitioner China Banking Corporation appeals the June 27, 2008 Decision^[1] and September 5, 2008 Resolution^[2] of the Court of Appeals (CA) in CA-G.R. CV No. 00226 which set aside the Decision^[3] of the Regional Trial Court (RTC) of General Santos City in Civil Case No. 6665.

The facts follow:

In 1994, Trans-Filipinas Realty Corporation (TFRC) obtained a loan from petitioner China Banking Corporation in the amount of Seven Million Pesos (P7,000,000). The loan was secured by a real estate mortgage over two parcels of land covered by Transfer Certificate of Title (TCT) Nos. T-34226 and T-34227. The credit line of TFRC was later increased to P14,000,000.^[4]

On May 10, 1996, the Board of Directors of respondent QBRO Fishing Enterprises, Inc. issued a resolution^[5] authorizing the mortgage of its properties to secure "the obligations incurred or which may [t]hereafter be incurred by [TFRC] with [petitioner] irrespective of the amount including any renewals, extensions and/or roll-overs thereof."^[6]

On June 3, 1996, respondent, represented by Armando Cesar A. Reyes and Concepcion R. Quintana, its president and treasurer, respectively, executed a real estate mortgage over nine parcels of land, covered by TCT Nos. T-38759 to T-38767, inclusive, as collateral for TFRC's additional loan in the amount of P34,500,000.^[7] The mortgage was annotated in the Registry of Deeds of General Santos City.

TFRC, however, defaulted on the payment of its obligation and failed to settle its account despite having received several demand letters from petitioner.^[8] Thus, petitioner filed a petition for extrajudicial foreclosure of the real properties respondent and TFRC had mortgaged.^[9] During the public auction, petitioner emerged as the highest bidder and was issued a Certificate of Sale.^[10]

Aggrieved, respondent filed a Complaint^[11] with the RTC to annul the real estate mortgage, foreclosure proceedings and auction sale. It alleged that petitioner unlawfully treated the TFRC and respondent's separate loan accounts, which were secured by two different and separate real estate mortgages, as a single, inseparable account. Furthermore, respondent claimed that the loan in the amount

of P34,500,000 had unilaterally ballooned to an unconscionable amount of P72,208,673.19, thus preventing TFRC from settling its obligation.

In its Answer,^[12] petitioner denied that there were two separate loan accounts. It maintained that the real estate mortgage over respondent's properties was executed to serve as additional security to accommodate TFRC's request for an increase in its loan line. There being only one loan, petitioner asserted that the filing of a petition for extrajudicial foreclosure was proper.

After trial on the merits, the RTC dismissed respondent's complaint. The RTC found that while there were two mortgage contracts, the foreclosure of respondent's properties could not be set aside because to allow respondent to avoid liability based on the real estate mortgage over its properties would amount to unjust enrichment. The RTC noted, first, that the incorporators of TFRC and respondent are composed of the same persons. Second, it noted that respondent failed to act on its obligation to pay despite several demands from petitioner. Thus, the RTC ruled that foreclosure was petitioner's proper remedy, citing the case of *Valmonte v. Court of Appeals*,^[13] which held that "[t]he only condition the law requires in extrajudicial foreclosure is that the loan is already due and demandable and there was failure on the part of the mortgagor to pay the mortgage debt." Lastly, the RTC also noted that there was no merit to respondent's claim that the mortgage it signed was void for being irregular.^[14]

Not satisfied with the above RTC Decision, respondent appealed to the CA.^[15] The issues respondent raised were simplified by the appellate court as follows:

1. Whether or not the plaintiff-appellant and Trans-Filipinas Realty Corporation have separate and distinct personality from each other.
2. Whether or not it was proper for defendant-appellee bank to have merged and consolidated the respective loan accounts of plaintiff-appellant and Trans-Filipinas Realty Corporation, as well as the mortgaged properties into a single loan account and single mortgage, respectively, when defendant-appellee bank extrajudicially foreclosed the properties of both corporations.^[16]

On June 27, 2008, the CA promulgated the assailed Decision declaring the foreclosure proceedings with respect to respondent's properties null and void. The dispositive portion of the decision reads:

WHEREFORE, the Decision dated February 26, 2004 of the Regional Trial Court, 11th Judicial Region, Branch 23, General Santos City, in Civil Case No. 6665, is **REVERSED** and **SET ASIDE**. A new judgment is hereby **ENTERED** declaring the November 17, 1997 foreclosure proceedings **NULL** and **VOID**, with respect to the mortgaged properties of plaintiff-appellant QBRO Fishing Enterprises, Inc[.], to wit: TCT No. T-38759, TCT No. T-38760, TCT No. T-38761, TCT No. T-38762, TCT No. T-38763, TCT No. T-38764, TCT No. T-38765, TCT No. T-38766 and TCT No. T-38767. Furthermore, the Ex-Officio Sheriff of the Regional Trial Court of General

Santos City is hereby DIRECTED to ISSUE an amended certificate of sale in the name of defendant-appellee China Banking Corporation, covering only the foreclosed properties of Trans-Filipinas Corporation, to wit: TCT No. T-34226 and TCT No. T-34227. Defendant-appellee China Banking Corporation's counterclaim before the trial court is hereby **DISMISSED**. No pronouncement as to costs.

SO ORDERED.^[17]

The CA ruled that respondent and TFRC are admittedly sister companies, having the same set of Board of Directors. However, it found that there was no allegation that their separate corporate entities were being used to defeat public convenience, justify wrong, protect fraud, or defend crime to disregard the separate juridical personality of a corporation. Moreover, the CA held that the fact that respondent agreed to mortgage its properties to secure the obligation of TFRC was not a valid reason for petitioner to consolidate the two loans and the real estate mortgages. The CA concluded that the foreclosure proceedings with respect to respondent's properties are null and void considering that there are two separate loans by different corporations.

Petitioner filed a motion for reconsideration.^[18] In a Resolution dated September 5, 2008, the CA denied the motion.

Petitioner elevated the case to us via the present petition for review on certiorari under Rule 45 of the 1997 Rules of Civil Procedure, as amended.

Petitioner argues that:

THE HONORABLE COURT OF APPEALS GRAVELY ERRED WHEN IT FAILED TO APPRECIATE THE FACT THAT THERE WAS ACTUALLY ONLY ONE (1) LOAN OBLIGATION BY TRANS-FILIPINAS REALTY CORPORATION, PAYMENT OF WHICH WAS PARTLY SECURED BY THE MORTGAGE OF QBRO FISHING ENTERPRISES, AS THIRD-PARTY MORTGAGOR, THUS, THERE BEING ONLY ONE OBLIGATION, ALBEIT SECURED BY TWO (2) MORTGAGES, ONLY ONE (1) FORECLOSURE THEREOF WAS LEGALLY SUFFICIENT.

THE HONORABLE COURT OF APPEALS GRAVELY ERRED IN ITS RULING WHEN IT FAILED TO APPRECIATE THE CORRECTNESS OF THE FORECLOSURE OF THE TWO (2) MORTGAGES WHERE BOTH MORTGAGORS WERE SPECIFICALLY NAMED AND IMPEADED AS RESPONDENTS IN THE PETITION FOR EXTRA-JUDICIAL FORECLOSURE.

^[19]

The two issues to be resolved are: *first*, whether TFRC and respondent actually had two separate loan accounts and *second*, whether the petition for extrajudicial foreclosure is valid with respect to the mortgaged properties of respondent.

Petitioner argues that there was only one loan extended to TFRC and that