

FIRST DIVISION

[G.R. No. 172227, June 29, 2011]

**SPOUSES WILFREDO PALADA AND BRIGIDA PALADA,*
PETITIONERS, VS. SOLIDBANK CORPORATION AND SHERIFF
MAYO DELA CRUZ, RESPONDENTS.**

D E C I S I O N

DEL CASTILLO, J.:

Allegations of bad faith and fraud must be proved by clear and convincing evidence.
[1]

This Petition for Review on *Certiorari* [2] under Rule 45 of the Rules of Court assails the January 11, 2006 Decision [3] of the Court of Appeals (CA) in CA-G.R. CV No. 84236 which dismissed the complaint filed by the petitioners against the respondents and declared as valid the real estate mortgage and certificate of sale. Also assailed is the April 12, 2006 Resolution [4] which denied the motion for reconsideration thereto.

Factual Antecedents

In February or March 1997, petitioners, spouses Wilfredo and Brigida Palada, applied for a P3 million loan broken down as follows: P1 million as additional working capital under the bills discounting line; P500,000.00 under the bills purchase line; and P1.5 million under the time loan from respondent Solidbank Corporation (bank). [5]

On March 17, 1997, petitioners received from the bank the amount of P1 million as additional working capital evidenced by a promissory note [6] and secured by a real estate mortgage [7] in favor of the bank covering several real properties situated in Santiago City. [8]

Due to the failure of petitioners to pay the obligation, the bank foreclosed the mortgage and sold the properties at public auction. [9]

On August 19, 1999, petitioners filed a Complaint [10] for nullity of real estate mortgage and sheriff's certificate of sale [11] with prayer for damages, docketed as Civil Case No. 35-2779, against the bank and respondent Sheriff Mayo dela Cruz (sheriff) before the Regional Trial Court (RTC) of Santiago City, Branch 35. [12] Petitioners alleged that the bank, without their knowledge and consent, included their properties covered by Transfer Certificate of Title (TCT) Nos. T-225131 and T-225132, [13] among the list of properties mortgaged; that it was only when they received the notice of sale from the sheriff in August 1998 that they found out about the inclusion of the said properties; that despite their objection, the sheriff

proceeded with the auction sale; and that the auction sale was done in Santiago City in violation of the stipulation on venue in the real estate mortgage. [14]

The bank, in its Answer, [15] denied the material allegations of the Complaint and averred that since petitioners were collaterally deficient, they offered TCT Nos. T-237695, T-237696, T-225131 and T-225132 as additional collateral; [16] that although the said properties were at that time mortgaged to the Philippine National Bank (PNB), the bank accepted the offer and caused the annotation of the mortgage in the original copies with the Register of Deeds with the knowledge and consent of petitioners; [17] and that when petitioners' obligation to PNB was extinguished, they delivered the titles of the four properties to the bank. [18]

Ruling of the Regional Trial Court

On October 21, 2004, the RTC rendered a Decision [19] declaring the real estate mortgage void for lack of sufficient consideration. According to the RTC, the real estate mortgage lacks consideration because the loan contract was not perfected due to the failure of the bank to deliver the full P3 million to petitioners. [20] The RTC also found the bank guilty of fraud and bad faith, thereby ordering it to pay petitioners moral and exemplary damages, and attorney's fees. The RTC ruled:

Furthermore, it appears that the defendant unilaterally changed the term and condition of their loan contract by releasing only P1M of the P3M approved loan. The defendant, in so doing, violated their principal contract of loan in bad faith, and should be held liable therefor.

Likewise, the defendant bank acted in bad faith when it made it appear that the mortgage was executed by the plaintiffs on June 16, 1997, when the document was acknowledged before Atty. German Balot, more so, when it made it appear that the mortgage was registered with the Register of Deeds allegedly on the same date, when in truth and in fact, the plaintiffs executed said mortgage sometime [in] March, 1997, obviously much earlier than June 16, 1997; for, if indeed the mortgage was executed on said date, June 16, 1997, it should have been written on the mortgage contract itself. On the contrary, the date and place of execution [were left blank]. Amazingly, defendant claims that it was the plaintiffs who [had the] mortgage notarized by Atty. Balot; such claim however is contrary or against its own interest, because, the defendant should be the most interested party in the genuineness and due execution of material important papers and documents such as the mortgage executed in its favor to ensure the protection of its interest embodied in said documents, and the act of leaving the notarization of such a very important document as a mortgage executed in its favor is contrary to human nature and experience, more so against its interest; hence, the claim is untrue.

Moreover, the defendant also appears to have been motivated by bad faith amounting to fraud when it was able to register the mortgage with the Register of Deeds at the time when the collateral certificates of titles were still in the custody and possession of another mortgagee bank

(PNB) due also to an existing/subsisting mortgage covering the same. Definitely, the defendant resorted to some machinations or fraudulent means in registering the contract of mortgage with the Register of Deeds. This should not be countenanced.

Thus, on account of defendant's bad faith, plaintiffs suffered mental anguish, serious anxiety, besmirched reputation, wounded feelings, moral shock and social humiliation, which entitle them to the award of moral damages, more so, that it was shown that defendants' bad faith was the proximate cause of these damages plaintiffs suffered.

x x x x

WHEREFORE, with all the foregoing considerations, judgment is hereby rendered in favor of the plaintiffs and against the defendant as follows:

1. DECLARING as null and void the undated real estate mortgage between the plaintiffs and the defendant, appearing as Doc. No. 553; Page No. 29; Book No. 28; Series of 1997; (Exhibits "B" for the plaintiffs, Exhibit "1" for the defendant);

2. Likewise DECLARING as null and void the Sheriff's Foreclosure and the Certificate of Sale, dated October 7, 1998 (Exhibit "F" to "F-3");

3. ORDERING the defendant to pay the plaintiffs the following damages:

- a) Php 1,000,000.00, moral damages;
- b) Php 500,000.00, exemplary damages; and
- c) Php 50,000.00, Attorney's fee; and

4. ORDERING the defendant to pay the cost of litigation, including plaintiffs' counsel's court appearance at Php1,500.00 each.

SO ORDERED. [21]

Ruling of the Court of Appeals

On appeal, the CA reversed the ruling of the RTC. The CA said that based on the promissory note and the real estate mortgage contract, the properties covered by TCT Nos. T-225131 and T-225132 were mortgaged to secure the loan in the amount of P1 million, and not the P3 million loan applied by petitioners. [22] As to the venue of the auction sale, the CA declared that since the properties subject of the case are in Santiago City, the holding of the auction sale in Santiago City was proper [23] pursuant to Sections 1 [24] and 2 [25] of Act No. 3135. [26] The CA likewise found no fraud or bad faith on the part of the bank to warrant the award of damages by the RTC, thus:

The List of Properties Mortgaged printed at the dorsal side of the real estate mortgage contract particularly includes the subject parcels of land covered by TCT No. T-225132 and TCT No. T-225131. Below the

enumeration, the signatures of [petitioners] clearly appear. The document was notarized before Notary Public German M. Balot. We therefore find no cogent reason why the validity of the real estate mortgage covering the two subject properties should not be sustained.

Settled is the rule in our jurisdiction that a notarized document has in its favor the presumption of regularity, and to overcome the same, there must be evidence that is clear, convincing and more than merely preponderant; otherwise the document should be upheld. Clearly, the positive presumption of the due execution of the subject real estate mortgage outweighs [petitioners'] bare and unsubstantiated denial that the parcels of land covered by TCT Nos. T-225132 and T-225131 were among those intended to secure the loan of One Million Pesos. Their imputation of fraud among the officials of [the bank] is weak and unpersuasive. x x x

x x x x

We also note why despite the alleged non-approval of [petitioners'] application for additional loan, the owner's copy of TCT Nos. T-225131 and T-225132 remained in the possession of [the bank]. [Petitioners'] claim that they were still hoping to obtain an additional loan in the future appears to this court as a weak explanation. The continued possession by the bank of the certificates of title merely supports the bank's position that the parcels of land covered by these titles were actually mortgaged to secure the payment of the One Million Peso loan.

x x x x

WHEREFORE, in view of the foregoing, the assailed decision of the Regional Trial Court, Branch 35 of Santiago City in Civil Case No. 35-2779 is hereby **ANNULLED and SET ASIDE** and a new one entered:

(1) **DISMISSING** the complaint filed by the plaintiffs-appellees against the defendants-appellants; and

(2) Declaring **VALID** the questioned real estate mortgage and certificate of sale.

SO ORDERED. [27]

On February 1, 2006, petitioners moved for reconsideration but the CA denied the same in its Resolution dated April 12, 2006. [28]

Issues

Hence, the present recourse, where petitioners allege that:

(A)