

THIRD DIVISION

[G.R. No. 187838, December 23, 2009]

ADRIATICO CONSORTIUM, INC., PRIMARY REALTY CORPORATION, AND BENITO CU-UY-GAM, PETITIONERS, VS. LAND BANK OF THE PHILIPPINES, RESPONDENT.

DECISION

VELASCO JR., J.:

The Case

Before us is a Petition for Review on Certiorari under Rule 45 assailing and seeking to set aside the Decision^[1] and Resolution^[2] dated October 16, 2008 and May 13, 2009, respectively, of the Court of Appeals (CA) in CA-G.R. SP No. 103717. The CA nullified and set aside the Orders dated February 29, 2008, March 5, 2008, March 17, 2008, and April 21, 2008, with the assailed March 5, 2008 Writ of Execution and March 14, 2008 Writ of Preliminary Injunction, issued by the Regional Trial Court (RTC), Branch 51 in Manila, in Civil Case No. 00-97648.

The Facts

Sometime in 1997, William A. Siy, the president of Adriatico Consortium, Inc. (ACI), applied for a credit line of PhP 200 million with Land Bank of the Philippines as additional funding to finish the construction of the Pan Pacific Hotel and the Adriatico Square, both owned by ACI. The lands on which the buildings were built belonged to Primary Realty Corporation (PRC).

The loan was approved and a Mortgage Trust Indenture (MTI) dated January 15, 1998 was created to secure the loan. Under the MTI, Land Bank was constituted as trustee of the lands of PRC and the buildings of ACI mortgaged to it.

On April 28, 1998, the MTI was amended increasing the maximum amount secured by it from PhP 200 million to PhP 600 million. Metropolitan Bank and Trust Company (Metrobank) and Land Bank participated in the MTI. Land Bank was then issued Mortgage Participation Certificate (MPC) No. 0001 for PhP 200 million, while Metrobank was issued MPC No. 0003 for PhP 100 million.

On July 8, 1998, the MTI was amended for the second time at the initiative of Siy, without the knowledge of other ACI officials and Board of Directors, to include J.V. Williams Realty and Development Corporation (JVWRDC) as borrower. JVWRDC is a majority-owned corporation of Siy. Consequently, Land Bank issued MPC No. 0002 dated July 17, 1998 for PhP 200 million and MPC No. 0004 for PhP 100 million to cover the loans of JVWRDC.

Subsequently, ACI fully paid the PhP 200 million under MPC No. 0001 and PhP 100

million under MPC No. 0003. ACI then requested the cancellation of the MTI but Land Bank refused. At this point, Land Bank revealed it never received any payment from the entire PhP 200 million-loan availed of by Siy sometime in 1997 under MPC No. 0001. This prompted ACI to investigate.

In the course of its investigation, ACI discovered that its former president, Siy, did not remit ACI's payments. What is more, ACI and PRC, with Benito Cu-Uy-Gam, ACI's new president, were obliged by Land Bank to pay the maturing obligations of JVWRDC. Likewise, it was discovered that the second amendment to the MTI was made possible by the submission of two secretary's certificates from ACI and PRC, which the National Bureau of Investigation (NBI) found to be forged.^[3]

On June 6, 2000, petitioners filed a Petition for Declaration of Nullity, Specific Performance, Injunction, and Damages with Prayer for a Temporary Restraining Order (TRO) against Land Bank and Siy with the Manila RTC, docketed as Civil Case No. 00-97648.^[4]

On November 14, 2000, the parties entered into a Partial Compromise Agreement. Under the said agreement, ACI agreed, among others, to pay and actually paid to Land Bank the total sum of PhP 289,656,868.97 representing the principal amount of PhP 201,233,891.38 plus interest in the amount of PhP 88,422,977.59 on November 28, 2000 as full and complete payment of MPC No. 0001 for PhP 200 million. Accordingly, the RTC issued a Partial Decision^[5] approving the compromise agreement on January 31, 2001.

Trial of the case proceeded in the RTC for the purpose of determining who the parties liable under MPC Nos. 0002 and 0004 are.

On January 15, 2008, Land Bank, however, informed ACI through a letter that the JVWRDC loans were included in a sealed-bid public auction of Land Bank Non-Performing Assets under the Special Purpose Vehicle Act. Petitioners viewed this as a violation of the Partial Compromise Agreement by Land Bank, particularly its Section 5, which states:

5. With the submission of this compromise agreement and payment by petitioner Adriatico Consortium, Inc. of the amounts stated in paragraph 2 hereof, the herein parties agree to unconditionally apply said payment in full satisfaction and extinguishment of the loan obligations of petitioner Adriatico Consortium, Inc. with the respondent Land Bank of the Philippines and **to suspend all actions against each other** with respect to the liabilities represented by Mortgage Participation Certificate No. 0002 for PhP 200,000,000 dated July 17, 1998 and Mortgage Participation No. 0004 for PhP 100,000,000 dated July 29, 1998 covered under the Second Amendment to the Mortgage Trust Indenture dated July 6, 1998. It is understood, however, that said mortgage participation certificates (Certificate Nos. 0002 and 0004) shall continue to secure the outstanding obligations of J.V. Williams until said outstanding obligations have been fully settled and satisfied or until it is finally adjudged and determined who are the parties liable thereto; **toward this end, the parties herein agree to cooperate with each other** in order for

respondent Land Bank of the Philippines to recover the same as against the person/s liable thereon.^[6] (Emphasis supplied.)

This prompted petitioners to file a Motion for Execution^[7] before the RTC on January 24, 2008.

Likewise, petitioners started to receive verbal demands for payment of the MPCs with a threat to foreclose the MPCs from a supposed highest winning bidder. Hence, on January 30, 2008, petitioners filed a Reiteration of Prayer for TRO and/or Writ of Preliminary Injunction^[8] before the RTC to enjoin the threatened foreclosure proceedings.

Despite opposition from Land Bank, the RTC issued an Order^[9] granting the Motion for Execution on February 29, 2008. The *fallo* reads:

Wherefore, the Motion for Execution is granted. Let a Writ of Execution be issued directing respondent Land Bank of the Philippines and respondent William Siy to suspend all actions against petitioner and particularly with respect to Mortgage Participation Certificate No. 0002 and 0004 including the transfer of the same to the buyer at the public auction.

SO ORDERED.

The corresponding Writ of Execution^[10] was issued on March 5, 2008. Subsequently, the Motion for Reconsideration and to Quash Writ of Execution^[11] filed by Land Bank was denied by the RTC in an Order^[12] dated March 17, 2008. The RTC, in interpreting Sec. 5 of the Partial Compromise Agreement, reasoned as follows:

The paragraph is clear and does not need further interpretation. It does not [connote] of any other things. Action is viewed by the Court as any action, deed, act, contemplated by the parties as not to disturb the status quo of the terms and condition in the compromise agreement. The provision in the partial decision specifically prohibit[s] the sale at public auction of liabilities represented by MPC No. 0002 and 0004. So, whatever is done to, or disturbed in the terms and condition which is prohibited is a violation of the partial decision. If the parties [refer] to action stated in the partial decision, it is no other, and if it refers to other action it should have specifically placed in the partial decision which the parties did not.

Likewise, on March 5, 2008, the RTC issued an Order^[13] granting petitioner's Reiteration of Prayer for TRO and/or Writ of Preliminary Injunction, and accordingly issuing the corresponding Writ of Preliminary Injunction.^[14]

Land Bank filed a Motion for Reconsideration, which was later denied by the RTC in its Order^[15] dated April 21, 2008.

Dissatisfied, Land Bank filed a Petition for Certiorari and Prohibition with Prayer for TRO and/or Preliminary Injunction^[16] before the CA docketed as CA-G.R. SP No. 103717. Land Bank argued that the sale of the MPCs is not prohibited by the Partial Compromise Agreement, reasoning that it was well within its legal rights to assign its credits to a third person.

Ruling of the Appellate Court

On October 16, 2008, the CA promulgated its Decision as follows:

WHEREFORE, premises considered, the petition is GRANTED and public respondent's Orders dated February 29, 2008, March 5, 2008, March 17, 2008 and April 21, 2008, together with the assailed March 5, 2008 Writ of Execution and March 14, 2008 writ of preliminary injunction are, accordingly, NULLIFIED and SET ASIDE.

SO ORDERED.^[17]

Unlike the RTC, the CA found that the compromise agreement sought to prohibit only legal actions, e.g., litigation, and rejected the interpretation of the lower court. Further, it ruled that there is nothing in the said compromise agreement which prohibits Land Bank from transferring or assigning its obligations to third persons, necessarily suggesting that such transfer or assignment does not constitute "action" within the context of the compromise agreement.

Aggrieved by the ruling of the CA, petitioners filed a motion for reconsideration, which was subsequently denied in its likewise assailed resolution dated May 13, 2009

Hence, this petition is before us.

The Issues

I

The Honorable [CA] seriously erred and committed grave abuse of discretion in not holding [that] the Land Bank's actuation in selling the receivables during the litigation is a violation of its obligation under the partial compromise agreement to cooperate with petitioners to determine the parties liable under Mortgage Participation Nos. 0002 and 0004.

II

The [CA] seriously erred and gravely abused its discretion in holding that the sale of credit or receivables is beyond the scope of the term "action"

proscribed under the partial compromise agreement.

III

The [CA] seriously erred and gravely abused its discretion in setting aside the writ of execution issued by the trial court due to the violations of the compromise agreement committed by Land Bank.

Our Ruling

The petition is meritorious.

Petitioners contend that the act of Land Bank in selling the receivables during the litigation violates its obligations under the Partial Compromise Agreement to cooperate with petitioners in the determination of the parties ultimately liable under MPC Nos. 0002 and 0004. Furthermore, they maintain that the sale of the receivables falls under the term "action" as found in the Partial Compromise Agreement.

In their Comment,^[18] however, respondent argues that the Partial Compromise Agreement aimed to suspend **only** legal actions against each other with respect to the obligations covered by MPC Nos. 0002 and 0004. It invoked its legal and contractual rights to transfer the MPCs and that such transfer cannot be construed as an action against petitioners.

Essentially, the issues in this case can be summed up into one basic question: Whether or not the act of Land Bank in selling the receivables violated the Partial Compromise Agreement, specifically the aforementioned Sec. 5.

This Court believes that it did.

For a better understanding of the Partial Compromise Agreement in question, its entire text is hereby reproduced below:

1. To avoid a protracted litigation for the mutual benefit of the parties herein, the petitioners and the respondent bank enter into the following compromise agreement whereby petitioners Adriatico Consortium, Inc. and Primary Realty Corporation are represented by its President, Benito Cu-Uy-Gam while respondent Land Bank of the Philippines is herein represented by its President and Chief Executive Officer, MARGARITO B. TEVES;

2. Parties agree that the petitioner Adriatico Consortium, Inc. will pay to respondent Land Bank of the Philippines the total amount [of] PhP 289,656,868.97 representing the principal amount of PhP 201,233,891.38 plus interest in the amount of PhP 88,422,977.59 on November 28, 2000 as full and complete payment of Mortgage Participation Certificate No. 0001 for PhP 200,000,000 issued under Mortgage Trust Indenture dated January 5, 1998; Penalties, fees and other expenses are hereby waived. Within fifteen (15) days from receipt