

SECOND DIVISION

[G.R. No. 172428, November 28, 2008]

HERMAN C. CRYSTAL, LAMBERTO C. CRYSTAL, ANN GEORGIA C. SOLANTE, AND DORIS C. MAGLASANG, AS HEIRS OF DECEASED SPOUSES RAYMUNDO I. CRYSTAL AND DESAMPARADOS C. CRYSTAL, PETITIONERS, VS. BANK OF THE PHILIPPINE ISLANDS, RESPONDENT.

DECISION

TINGA, J.:

Before us is a Petition for Review^[1] of the Decision^[2] and Resolution^[3] of the Court of Appeals dated 24 October 2005 and 31 March 2006, respectively, in CA G.R. CV No. 72886, which affirmed the 8 June 2001 decision of the Regional Trial Court, Branch 5, of Cebu City.^[4]

The facts, as culled from the records, follow.

On 28 March 1978, spouses Raymundo and Desamparados Crystal obtained a P300,000.00 loan in behalf of the Cebu Contractors Consortium Co. (CCCC) from the Bank of the Philippine Islands-Butuan branch (BPI-Butuan). The loan was secured by a chattel mortgage on heavy equipment and machinery of CCCC. On the same date, the spouses executed in favor of BPI-Butuan a Continuing Suretyship^[5] where they bound themselves as surety of CCCC in the aggregate principal sum of not exceeding P300,000.00. Thereafter, or on 29 March 1979, Raymundo Crystal executed a promissory note^[6] for the amount of P300,000.00, also in favor of BPI-Butuan.

Sometime in August 1979, CCCC renewed a previous loan, this time from BPI, Cebu City branch (BPI-Cebu City). The renewal was evidenced by a promissory note^[7] dated 13 August 1979, signed by the spouses in their personal capacities and as managing partners of CCCC. The promissory note states that the spouses are jointly and severally liable with CCCC. It appears that before the original loan could be granted, BPI-Cebu City required CCCC to put up a security.

However, CCCC had no real property to offer as security for the loan; hence, the spouses executed a real estate mortgage^[8] over their own real property on 22 September 1977.^[9] On 3 October 1977, they executed another real estate mortgage over the same lot in favor of BPI-Cebu City, to secure an additional loan of P20,000.00 of CCCC.^[10]

CCCC failed to pay its loans to both BPI-Butuan and BPI-Cebu City when they became due. CCCC, as well as the spouses, failed to pay their obligations despite demands. Thus, BPI resorted to the foreclosure of the chattel mortgage and the real

estate mortgage. The foreclosure sale on the chattel mortgage was initially stalled with the issuance of a restraining order against BPI.^[11] However, following BPI's compliance with the necessary requisites of extrajudicial foreclosure, the foreclosure sale on the chattel mortgage was consummated on 28 February 1988, with the proceeds amounting to P240,000.00 applied to the loan from BPI-Butuan which had then reached P707,393.90.^[12] Meanwhile, on 7 July 1981, Insular Bank of Asia and America (IBAA), through its Vice-President for Legal and Corporate Affairs, offered to buy the lot subject of the two (2) real estate mortgages and to pay directly the spouses' indebtedness in exchange for the release of the mortgages. BPI rejected IBAA's offer to pay.^[13]

BPI filed a complaint for sum of money against CCCC and the spouses before the Regional Trial Court of Butuan City (RTC Butuan), seeking to recover the deficiency of the loan of CCCC and the spouses with BPI-Butuan. The trial court ruled in favor of BPI. Pursuant to the decision, BPI instituted extrajudicial foreclosure of the spouses' mortgaged property.^[14]

On 10 April 1985, the spouses filed an action for *Injunction With Damages, With A Prayer For A Restraining Order and/ or Writ of Preliminary Injunction*.^[15] The spouses claimed that the foreclosure of the real estate mortgages is illegal because BPI should have exhausted CCCC's properties first, stressing that they are mere guarantors of the renewed loans. They also prayed that they be awarded moral and exemplary damages, attorney's fees, litigation expenses and cost of suit. Subsequently, the spouses filed an amended complaint,^[16] additionally alleging that CCCC had opened and maintained a foreign currency savings account (FCSA-197) with bpi, Makati branch (BPI-Makati), and that said FCSA was used as security for a P450,000.00 loan also extended by BPI-Makati. The P450,000.00 loan was allegedly paid, and thereafter the spouses demanded the return of the FCSA passbook. BPI rejected the demand; thus, the spouses were unable to withdraw from the said account to pay for their other obligations to BPI.

The trial court dismissed the spouses' complaint and ordered them to pay moral and exemplary damages and attorney's fees to BPI.^[17] It ruled that since the spouses agreed to bind themselves jointly and severally, they are solidarily liable for the loans; hence, BPI can validly foreclose the two real estate mortgages. Moreover, being guarantors-mortgagors, the spouses are not entitled to the benefit of exhaustion. Anent the FCSA, the trial court found that CCCC originally had FCDU SA No. 197 with BPI, Dewey Boulevard branch, which was transferred to BPI-Makati as FCDU SA 76/0035, at the request of Desamparados Crystal. FCDU SA 76/0035 was thus closed, but Desamparados Crystal failed to surrender the passbook because it was lost. The transferred FCSA in BPI-Makati was the one used as security for CCCC's P450,000.00 loan from BPI-Makati. CCCC was no longer allowed to withdraw from FCDU SA No. 197 because it was already closed.

The spouses appealed the decision of the trial court to the Court of Appeals, but their appeal was dismissed.^[18] The spouses moved for the reconsideration of the decision, but the Court of Appeals also denied their motion for reconsideration.^[19] Hence, the present petition.

Before the Court, petitioners who are the heirs of the spouses argue that the failure

of the spouses to pay the BPI-Cebu City loan of P120,000.00 was due to BPI's illegal refusal to accept payment for the loan unless the P300,000.00 loan from BPI-Butuan would also be paid. Consequently, in view of BPI's unjust refusal to accept payment of the BPI-Cebu City loan, the loan obligation of the spouses was extinguished, petitioners contend.

The contention has no merit. Petitioners rely on IBAA's offer to purchase the mortgaged lot from them and to directly pay BPI out of the proceeds thereof to settle the loan.^[20] BPI's refusal to agree to such payment scheme cannot extinguish the spouses' loan obligation. In the first place, IBAA is not privy to the loan agreement or the promissory note between the spouses and BPI. Contracts, after all, take effect only between the parties, their successors in interest, heirs and assigns.^[21] Besides, under Art. 1236 of the Civil Code, the creditor is not bound to accept payment or performance by a third person who has no interest in the fulfillment of the obligation, unless there is a stipulation to the contrary. We see no stipulation in the promissory note which states that a third person may fulfill the spouses' obligation. Thus, it is clear that the spouses alone bear responsibility for the same.

In any event, the promissory note is the controlling repository of the obligation of the spouses. Under the promissory note, the spouses defined the parameters of their obligation as follows:

On or before June 29, 1980 on demand, for value received, I/we promise to pay, jointly and severally, to the BANK OF THE PHILIPPINE ISLANDS, at its office in the city of Cebu Philippines, the sum of ONE HUNDRED TWENTY THOUSAND PESOS (P120,0000.00), Philippine Currency, subject to periodic installments on the principal as follows: P30,000.00 quarterly amortization starting September 28, 1979. x x x ^[22]

A solidary obligation is one in which each of the debtors is liable for the entire obligation, and each of the creditors is entitled to demand the satisfaction of the whole obligation from any or all of the debtors. ^[23] A liability is solidary "only when the obligation expressly so states, when the law so provides or when the nature of the obligation so requires."^[24] Thus, when the obligor undertakes to be "jointly and severally" liable, it means that the obligation is solidary,^[25] such as in this case. By stating "I/we promise to pay, jointly and severally, to the BANK OF THE PHILIPPINE ISLANDS," the spouses agreed to be sought out and be demanded payment from, by BPI. BPI did demand payment from them, but they failed to comply with their obligation, prompting BPI's valid resort to the foreclosure of the chattel mortgage and the real estate mortgages.

More importantly, the promissory note, wherein the spouses undertook to be solidarily liable for the principal loan, partakes the nature of a suretyship and therefore is an additional security for the loan. Thus we held in one case that if solidary liability was instituted to "guarantee" a principal obligation, the law deems the contract to be one of suretyship.^[26] And while a contract of a surety is in essence secondary only to a valid principal obligation, the surety's liability to the creditor or promisee of the principal is said to be direct, primary, and absolute; in other words, the surety is directly and equally bound with the principal. The surety therefore becomes liable for the debt or duty of another even if he possesses no

direct or personal interest over the obligations nor does he receive any benefit therefrom.^[27]

Petitioners contend that the Court of Appeals erred in not granting their counterclaims, considering that they suffered moral damages in view of the unjust refusal of BPI to accept the payment scheme proposed by IBAA and the allegedly unjust and illegal foreclosure of the real estate mortgages on their property.^[28] Conversely, they argue that the Court of Appeals erred in awarding moral damages to BPI, which is a corporation, as well as exemplary damages, attorney's fees and expenses of litigation.^[29]

We do not agree. Moral damages are meant to compensate the claimant for any physical suffering, mental anguish, fright, serious anxiety, besmirched reputation, wounded feelings, moral shock, social humiliation and similar injuries unjustly caused.^[30] Such damages, to be recoverable, must be the proximate result of a wrongful act or omission the factual basis for which is satisfactorily established by the aggrieved party.^[31] There being no wrongful or unjust act on the part of BPI in demanding payment from them and in seeking the foreclosure of the chattel and real estate mortgages, there is no lawful basis for award of damages in favor of the spouses.

Neither is BPI entitled to moral damages. A juridical person is generally not entitled to moral damages because, unlike a natural person, it cannot experience physical suffering or such sentiments as wounded feelings, serious anxiety, mental anguish or moral shock.^[32] The Court of Appeals found BPI as "being famous and having gained its familiarity and respect not only in the Philippines but also in the whole world because of its good will and good reputation must protect and defend the same against any unwarranted suit such as the case at bench."^[33] In holding that BPI is entitled to moral damages, the Court of Appeals relied on the case of *People v. Manero*,^[34] wherein the Court ruled that "[i]t is only when a juridical person has a good reputation that is debased, resulting in social humiliation, that moral damages may be awarded."^[35]

We do not agree with the Court of Appeals. A statement similar to that made by the Court in *Manero* can be found in the case of *Mambulao Lumber Co. v. PNB, et al.*,^[36] thus:

x x x Obviously, an artificial person like herein appellant corporation cannot experience physical sufferings, mental anguish, fright, serious anxiety, wounded feelings, moral shock or social humiliation which are basis of moral damages. **A corporation may have good reputation which, if besmirched may also be a ground for the award of moral damages.** x x x (Emphasis supplied)

Nevertheless, in the more recent cases of *ABS-CBN Corp. v. Court of Appeals, et al.*,^[37] and *Filipinas Broadcasting Network, Inc. v. Ago Medical and Educational Center-Bicol Christian College of Medicine (AMEC-BCCM)*,^[38] the Court held that the statements in *Manero* and *Mambulao* were mere *obiter dicta*, implying that the award of moral damages to corporations is not a hard and fast rule. Indeed, while the Court may allow the grant of moral damages to corporations, it is not