

THIRD DIVISION

[G. R. No. 126568, April 30, 2003]

QUIRINO GONZALES LOGGING CONCESSIONAIRE, QUIRINO GONZALES and EUFEMIA GONZALES, PETITIONERS, vs. THE COURT OF APPEALS (CA) and REPUBLIC PLANTERS BANK, RESPONDENTS.

DECISION

CARPIO MORALES, J.:

In the expansion of its logging business, petitioner Quirino Gonzales Logging Concessionaire (QGLC), through its proprietor, general manager - co-petitioner Quirino Gonzales, applied on October 15, 1962 for credit accommodations^[1] with respondent Republic Bank (the Bank), later known as Republic Planters Bank.

The Bank approved QGLC's application on December 21, 1962, granting it a credit line of P900,000.00^[2] broken into an overdraft line of P500,000.00 which was later reduced to P450,000.00 and a Letter of Credit (LC) line of P400,000.00.^[3]

Pursuant to the grant, the Bank and petitioners QGLC and the spouses Quirino and Eufemia Gonzales executed ten documents: two denominated "Agreement for Credit in Current Account,"^[4] four denominated "Application and Agreement for Commercial Letter of Credit,"^[5] and four denominated "Trust Receipt."^[6]

Petitioners' obligations under the credit line were secured by a real estate mortgage on four parcels of land: two in Pandacan, Manila, one in Makati (then part of Rizal), and another in Diliman, Quezon City.^[7]

In separate transactions, petitioners, to secure certain advances from the Bank in connection with QGLC's exportation of logs, executed a promissory note in 1964 in favor of the Bank. They were to execute three more promissory notes in 1967.

In 1965, petitioners having long defaulted in the payment of their obligations under the credit line, the Bank foreclosed the mortgage and bought the properties covered thereby, it being the highest bidder in the auction sale held in the same year. Ownership over the properties was later consolidated in the Bank on account of which new titles thereto were issued to it.^[8]

On January 27, 1977, alleging non-payment of the balance of QGLC's obligation after the proceeds of the foreclosure sale were applied thereto, and non-payment of the promissory notes despite repeated demands, the Bank filed a complaint for "sum of money" (Civil Case No. 106635) against petitioners before the Regional Trial Court (RTC) of Manila.

The complaint listed ten causes of action. The first concerns the overdraft line under which the Bank claimed that petitioners withdrew amounts (unspecified) at twelve percent *per annum* which were unpaid at maturity and that after it applied the proceeds of the foreclosure sale to the overdraft debt, there remained an unpaid balance of P1,224,301.56.

The Bank's second to fifth causes of action pertain to the LC line under which it averred that on the strength of the LCs it issued, the beneficiaries thereof drew and presented sight drafts to it which it all paid after petitioners' acceptance; and that it delivered the tractors and equipment subject of the LCs to petitioners who have not paid either the full or part of the face value of the drafts.

Specifically with respect to its second cause of action, the Bank alleged that it issued LC No. 63-0055D on January 15, 1963 in favor of Monark International Incorporated^[9] covering the purchase of a tractor^[10] on which the latter allegedly drew a sight draft with a face value of P71,500.00,^[11] which amount petitioners have not, however, paid in full.

Under its third cause of action, the Bank charged that it issued LC No. 61-1110D on December 27, 1962 also in favor of Monark International covering the purchase of another tractor and other equipment,^[12] and that Monark International drew a sight draft with a face value of P80,350.00,^[13] and while payments for the value thereof had been made by petitioners, a balance of P68,064.97 remained.

Under the fourth cause of action, the Bank maintained that it issued LC No. 63-0182D on February 11, 1963 in favor of J.B.L. Enterprises, Inc.^[14] covering the purchase of two tractors,^[15] and J.B.L. Enterprises drew on February 13, 1963 a sight draft on said LC in the amount of P155,000.00 but petitioners have not paid said amount.

On its fifth cause of action, the Bank alleged that it issued LC No. 63-0284D on March 14, 1963 in favor of Super Master Auto Supply (SMAS) covering the purchase of "Eight Units GMC (G.I.) Trucks"; that on March 14, 1963, SMAS drew a sight draft with a face value of P64,000.00^[16] on the basis of said LC; and that the payments made by petitioners for the value of said draft were deficient by P45,504.74.

The Bank thus prayed for the settlement of the above-stated obligations at an interest rate of eleven percent *per annum*, and for the award of trust receipt commissions, attorney's fees and other fees and costs of collection.

The sixth to ninth causes of action are anchored on the promissory notes issued by petitioners allegedly to secure certain advances from the Bank in connection with the exportation of logs as reflected above.^[17] The notes were payable 30 days after date and provided for the solidary liability of petitioners as well as attorney's fees at ten percent of the total amount due^[18] in the event of their non-payment at maturity.

The note dated June 18, 1964, subject of the sixth cause of action, has a face value of P55,000.00 with interest rate of twelve percent *per annum*,^[19] that dated July 7, 1967 subject of the seventh has a face value of P20,000.00;^[20] that dated July 18,

1967 subject of the eighth has a face value of P38,000.00;^[21] and that dated August 23, 1967 subject of the ninth has a face value of P11,000.00.^[22] The interest rate of the last three notes is pegged at thirteen percent *per annum*.^[23]

On its tenth and final cause of action, the Bank claimed that it has accounts receivable from petitioners in the amount of P120.48.

In their Answer^[24] of March 3, 1977, petitioners admit the following: having applied for credit accommodations totaling P900,000.00 to secure which they mortgaged real properties; opening of the LC/Trust Receipt Line; the issuance by the Bank of the various LCs; and the foreclosure of the real estate mortgage and the consolidation of ownership over the mortgaged properties in favor of the Bank. They deny, however, having availed of the credit accommodations and having received the value of the promissory notes, as they do deny having physically received the tractors and equipment subject of the LCs.

As affirmative defenses, petitioners assert that the complaint states no cause of action, and assuming that it does, the same is/are barred by prescription or null and void for want of consideration.

By Order of March 10, 1977, Branch 36 of the Manila RTC attached the preferred shares of stocks of the spouses Quirino and Eufemia Gonzales with the Bank with a total par value of P414,000.00.

Finding for petitioners, the trial court rendered its Decision of April 22, 1992 the dispositive portion of which reads:

WHEREFORE, judgment is rendered as follows:

1. All the claims of plaintiff particularly those described in the first to the tenth causes of action of its complaint are denied for the reasons earlier mentioned in the body of this decision;
2. As regards the claims of defendants pertaining to their counterclaim (Exhibits "1", "2" and "3"), they are hereby given ten (10) years from the date of issuance of the torrens title to plaintiff and before the transfer thereof in good faith to a third party buyer within which to ask for the reconveyance of the real properties foreclosed by plaintiff,
3. The order of attachment which was issued against the preferred shares of stocks of defendants-spouses Quirino Gonzales and Eufemia Gonzales with the Republic Bank now known as Republic Planters Bank dated March 21, 1977 is hereby dissolved and/or lifted, and
4. Plaintiff is likewise ordered to pay the sum of P20,000.00, as and for attorney's fees, with costs against plaintiff.

SO ORDERED.

In finding for petitioners, the trial court ratiocinated:^[25]

Art. 1144 of the Civil Code states that an action upon a written contract prescribes in ten (10) years from the time the right of action accrues. Art. 1150 states that prescription starts to run from the day the action may be brought. The obligations allegedly created by the written contracts or documents supporting plaintiff's first to the sixth causes of action were demandable at the latest in 1964. Thus when the complaint was filed on January 27, 1977 more than ten (10) years from 1964 [when the causes of action accrued] had already lapsed. *The first to the sixth causes of action are thus barred by prescription. . . .*

As regards the seventh and eight causes of action, the authenticity of which documents were partly in doubt in the light of the categorical and uncontradicted statements that in 1965, defendant Quirino Gonzales logging concession was terminated based on the policy of the government to terminate logging concessions covering less than 20,000 hectares. If this is the case, the Court is in a quandary why there were log exports in 1967? Because of the foregoing, *the Court does not find any valid ground to sustain the seventh and eight causes of action of plaintiff's complaint.*

As regards the ninth cause of action, the Court is baffled why plaintiff extended to defendants another loan when defendants according to plaintiff's records were defaulting creditors? The above facts and circumstances has (sic) convinced this Court to give credit to the testimony of defendants' witnesses that *the Gonzales spouses signed the documents in question in blank and that the promised loan was never released to them.* There is therefore a total absence of consent since defendants did not give their consent to loans allegedly procured , the proceeds of which were never received by the alleged debtors, defendants herein. . . .

Plaintiff did not present evidence to support its tenth cause of action. For this reason, it must consequently be denied for lack of evidence.

On the matter of [the] counterclaims of defendants, they seek the return of the real and personal properties which they have given in good faith to plaintiff. Again, prescription may apply. The real properties of defendants acquired by plaintiff were foreclosed in 1965 and consequently, defendants had one (1) year to redeem the property or ten (10) years from issuance of title on the ground that the obligation foreclosed was fictitious.

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On appeal,^[26] the Court of Appeals (CA) reversed the decision of the trial court by Decision^[27] of June 28, 1996 which disposed as follows:^[28]

WHEREFORE, premises considered, the appealed decision (dated April 22, 1992) of the Regional Trial Court (Branch 36) in Manila in Civil Case No. 82-4141 is hereby REVERSED---and let the case be remanded back to the court *a quo* for the determination of the amount(s) to be awarded to the [the Bank]-appellant relative to its claims against the appellees.

SO ORDERED.

With regard to the first to sixth causes of action, the CA upheld the contention of the Bank that the notices of foreclosure sale were “tantamount” to demand letters upon the petitioners which interrupted the running of the prescriptive period.^[29]

As regards the seventh to ninth causes of action, the CA also upheld the contention of the Bank that the written agreements-promissory notes prevail over the oral testimony of petitioner Quirino Gonzales that the cancellation of their logging concession in 1967 made it unbelievable for them to secure in 1967 the advances reflected in the promissory notes.^[30]

With respect to petitioners’ counterclaim, the CA agreed with the Bank that:^[31]

Certainly, failure on the part of the trial court to pass upon and determine the authenticity and genuineness of [the Bank’s] documentary evidence [the trial court having ruled on the basis of prescription of the Bank’s first to sixth causes of action] makes it impossible for the trial court to eventually conclude that the obligation foreclosed (sic) was fictitious. Needless to say, the trial court’s ruling averses (sic) the well-entrenched rule that ‘courts must render verdict on their findings of facts.’ (China Banking Co. vs. CA, 70 SCRA 398)

Furthermore, the defendants-appellees’ [herein petitioners’] counterclaim is basically an action for the reconveyance of their properties, thus, the trial court’s earlier ruling that the defendants-appellees’ counterclaim has prescribed is itself a ruling that the defendants-appellees’ separate action for reconveyance has also prescribed.

The CA struck down the trial court’s award of attorney’s fees for lack of legal basis.^[32]

Hence, petitioners now press the following issues before this Court by the present petition for review on certiorari:

1. WHETHER OR NOT RESPONDENT COURT ERRED IN SO HOLDING THAT RESPONDENT-APPELLEES (SIC.) REPUBLIC PLANTERS BANK[’S] FIRST, SECOND, THIRD, FOURTH, FIFTH AND SIXTH CAUSES OF ACTION HAVE NOT PRESCRIBED CONTRARY TO THE FINDINGS OF THE LOWER COURT, RTC BRANCH 36 THAT THE SAID CAUSES OF ACTION HAVE ALREADY PRESCRIBED.
2. WHETHER OR NOT RESPONDENT COURT ERRED IN SO HOLDING THAT RESPODNENT-APPELLEES (SIC.) REPUBLIC PLANTERS BANK[’S] SEVENTH, EIGHT AND NINTH CAUSES OF ACTION APPEARS (SIC.) TO BE IMPRESSED WITH MERIT CONTRARY TO THE FINDINGS OF THE LOWER COURT RTC BRANCH 36 THAT THE SAID CAUSES HAVE NO VALID GROUND TO SUSTAIN [THEM] AND FOR LACK OF EVIDENCE.