

FIRST DIVISION

[G.R. No. 112590*, July 12, 2001]

STATE INVESTMENT HOUSE, INC., PETITIONER, VS. COURT OF APPEALS, LOMUYON TIMBER INDUSTRIES, INC., AMANDA MALONJAO AND RUFINO MALONJAO, RESPONDENTS.

D E C I S I O N

KAPUNAN, J.:

This is a petition for review of the decision of the Court of Appeals affirming *in toto* the decision of the Regional Trial Court, National Capital Region, Branch 38 in Civil Case No. 83-18464 for a sum of money.

The undisputed facts, as quoted from the respondent court's decision are as follows:

On March 9, 1978, Lomuyon Timber Industries, Inc. (hereafter, Lomuyon) agreed to sell to plaintiff its "receivables" at a discount on a with recourse basis (Exh. "A"). It was agreed in that sale that should a receivable remain unpaid, plaintiff, at its discretion, may impose a penalty fee of 3% per month. To secure the payment of the receivables, the Malonjaos also executed in favor of plaintiff, a real estate mortgage over their real property covered by Transfer Certificates of Title Nos. (445856) S-65586 and No. (162775) S-65585 (Exh. "B").

Pursuant to their agreement, on March 9, 10 and 15, 1978 and July 19, 1978, Lomuyon sold to plaintiff for a total consideration of P2,558,073.75 (Exhs. "C", "D", "E" and "F"), various receivables consisting of checks as follows:

TCBTC618821	June 9, 1978	P371,319.58
TCBTC618820	September 9, 1978	P371,319.58
TCBTC618819	December 9, 1978	P371,319.58
TCBTC618818	March 9, 1978	P371,319.58
TCBTC618817	June 9, 1979	P371,319.58
TCBTC618816	September 9, 1979	P371,319.58

TCBTC618814 December P371,319.58
9, 1979

TCBTC618828 March 9, P371,319.58
1980

MBTC 06659490 September
30, 1978 60,000.00

(Exhs. "C-1", "D-1", "E-1", "F-1" and "G" to
"G-7").

TCBTC (The Consolidated Bank and Trust Corporation) checks were all drawn by Amanda Malonjao to the order of payee Lomuyon which in turn, indorsed the checks to plaintiff. The MBTC (Metropolitan Bank and Trust Company) check was drawn by one Antonietta Malonjao-Roque to the order of payee Amanda Malonjao who in turn, indorsed said check to plaintiff.

When plaintiff presented the checks for payment to the drawee banks, the same were dishonored for having been drawn against insufficient funds (Exhs. "H" to "H-7") except for TCBTC 618821.

Plaintiff made repeated written demands on defendants to make good the checks they indorsed and to pay the penalty charges it has imposed thereon, (Exhs. "I", "J", "K", "L", "L-1", "M" and "N").

Defendants failed to pay the value of the checks. Plaintiff thus decided to undertake foreclosure of the real estate mortgage.

On October 6, 1982, plaintiff filed with the Provincial Sheriff of Rizal a petition for extrajudicial foreclosure of real estate mortgage dated September 28, 1981. In said petition, plaintiff alleged among others, that as of said date, September 28, 1981, defendants' outstanding obligation, inclusive of interest and charges, is P4,809,187.12 (Exh. "O").

On February 14, 1983, the Provincial Sheriff sold at public auction, defendants' mortgaged properties to plaintiff who was the highest bidder for P4,233,874.00. The following day, the Provincial Sheriff issued a Certificate of Sale (Exh. "P").

On June 27, 1983, plaintiff filed the complaint alleging that after deducting the price of the mortgaged properties from defendants' outstanding obligation, there remains a deficiency of P2,601,147.62 as of February 14, 1983, which as of May 31, 1983 amounted to P2,876,929.27 inclusive of interest and charges. As an alternative cause of action, plaintiff alleged that it is entitled to recover from the defendant the total value of the checks amounting to P2,239,237.10. Plaintiff further prayed that it be awarded exemplary damages, attorney's fees and litigation expenses (Records, pp. 1-38).

In their answer, defendants admitted having incurred the obligation with the plaintiff brought about by the dishonor of the checks. However,

defendants contended that plaintiff's computation of their outstanding obligation is erroneous. Thus, by way of special affirmative defenses, defendants alleged that:

"12. x x x.

"13. The complaint states no cause of action;

"14. The value of the mortgaged properties sold at public auction is more than sufficient to cover the obligation of the defendants;

"15. The alleged purchase price of the mortgaged properties sold at public auction is unconscionably very very low;

"16. Assuming for the sake of argument, that the outstanding obligation of the defendants as of September 26, 1981 (sic) was P4,809,187.12 per statement of account as alleged in the complaint and the alleged purchase price at public auction was P4,233,874.00, the deficiency would only be P575,313.12 and not P2,601,147.62 as erroneously alleged in the complaint.

"17. No demand was ever made upon the defendant;

"18. The interest and charges made by plaintiff is usurious and unconscionable" (id., pp. 91-92).^[1]

On January 11, 1981, the trial court rendered its decision with the following dispositive portion:

WHEREFORE, in view of all the foregoing, judgment is hereby rendered:

1. Declaring that the plaintiff is not entitled to any deficiency amount from the defendants;
2. Dismissing defendants' counterclaim; and
3. Ordering the plaintiff and defendants to pay the costs of suit.

SO ORDERED.^[2]

On appeal, petitioner assigned the following errors committed by the trial court:

- I. THE LOWER COURT ERRED IN NOT FINDING THAT DEFENDANTS-APPELLEES' OBLIGATION TO SIHI AS OF THE TIME OF FORECLOSURE AUCTION SALE AMOUNTED TO P6,835,021.62 THUS, AFTER DEDUCTING THE AUCTION PRICE OF THE MORTGAGED PROPERTIES IN THE AMOUNT OF P4,233,874.00, THE BALANCE WOULD BE P2,601,141.62.
- II. THE LOWER COURT ERRED IN FINDING THAT SIHI HAD ALREADY FULLY RECOVERED ITS RECEIVABLES FROM THE DEFENDANTS.