

Title:

Bank of America, NT and SA vs. American Realty Corporation and Court of Appeals

Facts:

This case involves Bank of America NT & SA (BANTSA), an international banking institution, and American Realty Corporation (ARC), a domestic corporation in the Philippines. BANTSA and Bank of America International Limited (BAIL) granted multi-million US dollar loans to three corporate borrowers, which were foreign affiliates of ARC. Upon default of these loans, ARC, as a third-party mortgagor, executed real estate mortgages over its properties as additional security for the restructured loans. However, the borrowers defaulted again, leading BANTSA to file civil actions for collection of the principal loan in foreign courts (England and Hong Kong).

Ignoring ARC's third-party mortgagor status, BANTSA initiated an extrajudicial foreclosure of the real estate mortgage in the Philippines. ARC filed a damages lawsuit against BANTSA for foreclosing the mortgages despite the pending foreign civil suits. The case journeyed through the legal system, with the trial court siding with ARC, a decision later affirmed by the Court of Appeals. BANTSA's motion for reconsideration was denied by the Court of Appeals, prompting the appeal to the Supreme Court under Rule 45 of the Rules of Court.

Issues:

1. Whether filing a collection suit against the principal debtors in foreign courts constitutes a waiver of the remedy of foreclosure.
2. Whether the award of actual and exemplary damages to ARC, as a third-party mortgagor, is justified.

Court's Decision:

The Supreme Court denied the petition, affirming the decision of the Court of Appeals with modifications on the award of exemplary damages. The Court held that filing a collection suit indeed constitutes a waiver of the foreclosure remedy against the mortgaged property. It further clarified that merely initiating the collection suit suffices for the waiver, rejecting BANTSA's contention that a final judgment in the collection action is necessary. Consequently, BANTSA was deemed to have irrevocably chosen its remedy against the principal debtors, thereby precluding it from foreclosing the real estate mortgage. As for damages, the Court found ARC entitled to actual damages due to BANTSA's wrongful foreclosure action but modified the exemplary damages to a more reasonable amount.

Doctrine:

This case reiterates the doctrine that the mere act of filing a collection suit for unpaid loans secured by mortgage constitutes a waiver of the mortgagee creditor's right to foreclose the mortgaged property. The decision emphasizes that electing one of the remedies operates as a waiver of the other, grounded in the principle against splitting a single cause of action.

Class Notes:

- A single cause of action cannot be split into multiple suits; choosing one remedy (collection suit or foreclosure) waives the other.
- Filing a collection suit constitutes an election of remedy, effectively waiving the right to foreclose on the mortgaged property.
- Actual and exemplary damages may be awarded if improper foreclosure actions violate third-party mortgagor's rights, subject to evidence of actual loss and considerations of fairness.
- The principle of processual presumption applies when foreign laws are not properly pleaded and proved, assuming they align with Philippine law.
- Awards for damages can exceed the amount initially claimed if substantiated by evidence and without causing surprise or prejudice to the opposing party.

Historical Background:

The issue of whether a creditor's action for collection waives their right to foreclose a mortgage touches upon the broader principles of fairness and efficiency in the legal system. The decision aims to prevent creditors from exploiting multiple remedies to the detriment of debtors, encouraging a balance between the contractual rights of the creditor and the protection of debtors from unduly burdensome litigation.