

Title: Danao vs. Bank of the Philippine Islands (BPI), 238 Phil. 447 (1987)

Facts:

The case involves two petitions for review concerning the extrajudicial foreclosure initiated by the People's Bank and Trust Company (succeeded by the Bank of the Philippine Islands - BPI) of a mortgage secured by Dr. Pedro A. Danao and his wife, Concepcion S. Danao. The foreclosure was based on a commercial credit line initially availed by the Danaos in 1963, and a separate indebtedness allegedly secured by the same mortgage, involving a promissory note co-signed by Dr. Danao with Antonio Co Kit.

After fully paying the last promissory note under the credit line in 1968, a demand for payment was made for the promissory note co-signed with Co Kit. Failing to receive payment, the bank initiated foreclosure proceedings in 1971, despite a full payment being later acknowledged and the mortgage canceled. The Danaos filed a complaint for damages against BPI for the wrongful foreclosure, leading to trials at the Court of First Instance of Manila and the Court of Appeals, which both found in favor of the Danaos, albeit with modifications on the damages awarded.

The procedural journey saw multiple filings, including the initial demand for payment, the petition for foreclosure, publications of the auction sale, and the subsequent trials and appeals that culminated in the Supreme Court review.

Issues:

1. Whether the real estate mortgage secured not only the commercial credit line but also the separate indebtedness from a promissory note co-signed by Dr. Danao.
2. Whether the illness and heart attacks suffered by Dr. Danao were related to the foreclosure and public auction sale.
3. The appropriateness of the awarded damages by the lower courts.

Court's Decision:

The Supreme Court affirmed the findings of the lower courts that BPI acted unlawfully in foreclosing the mortgage for a debt that was distinct from the original credit line secured by the mortgage. The Court upheld the principle that pursuing a personal action for debt waives the right to subsequently foreclose the mortgage on the same debt, thereby rendering the bank's foreclosure unwarranted.

Issues were resolved as follows:

1. The Supreme Court found that, even assuming the promissory note was secured by the

mortgage, the bank's decision to pursue a personal action for the debt precluded the later foreclosure on the same debt, reflecting an impermissible splitting of the cause of action.

2. The linking of Dr. Danao's health issues to the foreclosure proceedings was deemed inadequately proven regarding actual damages; however, the Court acknowledged the wrongful actions of BPI justified the award for moral damages, adjusting these to reflect the undue distress caused to the Danaos.

3. On damages, the Supreme Court modified the awards, increasing moral damages and attorney's fees, and adding exemplary damages, to mark disapproval of the bank's conduct.

Doctrine:

The Supreme Court reiterated the doctrine that a mortgage creditor can either pursue a personal action to recover debt or foreclose the mortgage but not both. Electing one remedy waives the right to the other, particularly highlighting that pursuing a personal action and then a foreclosure constitutes an impermissible splitting of the cause of action. Additionally, wrongful acts causing undue distress and public embarrassment justify an award for moral and exemplary damages, adjusted at the discretion of the Court.

Class Notes:

- **Mortgage Foreclosure vs. Personal Action for Recovery of Debt**: A creditor may choose between these two remedies but pursuing one waives the right to pursue the other on the same debt.
- **Doctrine of Election of Remedies**: Choosing one remedy precludes the option to pursue other remedies based on the same claim or cause of action.
- **Moral and Exemplary Damages**: Can be awarded when a party's wrongful act causes mental anguish, serious anxiety, besmirched reputation, or other forms of distress. Awards may be adjusted by courts based on circumstances.

Historical Background:

This case underscores the fundamental legal principles surrounding foreclosure and debt recovery, emphasizing the protection against double jeopardy in financial liabilities for debtors. It reflects the judiciary's stance on preventing abuse of legal remedies by creditors and underscores the moral and ethical standards expected in the execution of contractual rights and obligations.