Title: Eulalio Prudencio and Elisa T. Prudencio vs. The Philippine National Bank et al.

Facts:
1. **Initial Mortgage** – Eulalio and Elisa Prudencio were the registered owners of a parcel of land in Sampaloc, Manila, covered by T.C.T. 35161, which they mortgaged to the Philippine National Bank (PNB) on October 7, 1954, to guarantee a loan of P1,000 for Domingo Prudencio.
2. **Request for New Loan** – In 1955, the Concepcion & Tamayo Construction Company (Company) needed funds for a public construction project. The Company's attorney-in-fact, Jose Toribio, sought from PNB a loan of P10,000, proposing that the Prudencios' property be mortgaged as security.
3. **Amendment of Mortgage** – On December 23, 1955, Eulalio and Elisa Prudencio signed an "Amendment of Real Estate Mortgage," including the PNB loan agreement terms, thus mortgaging their property to secure the loan of P10,000. The promissory note for this loan was dated December 29, 1955, and matured on April 27, 1956.
4. **Deed of Assignment** – On the same date, Jose Toribio executed a "Deed of Assignment" assigning payments from the Bureau of Public Works for the project to PNB.
5. **Payments Approved by PNB** – Despite the assignment of credit, PNB authorized the Bureau of Public Works to make three payments to the Company totaling P11,234.40 after satisfying conditioned criteria, including one payment post the loan's maturity date.
6. **Company's Default** – The Company abandoned the project, leading to the Bureau of Public Works rescinding the contract on June 30, 1956.
7. **Failure to Apply Payments** – Prudencios demanded cancellation of their mortgage after discovering that PNB authorized payments to the Company without applying them to the loan as purportedly secured in the assignment.
8. **Litigation Begins** – Following unsuccessful attempts to cancel the mortgage, the Prudencios filed a complaint on June 27, 1959. The trial court ruled against the Prudencios, affirming their obligation under the mortgage.
9. **Appeal Process** – The Court of Appeals upheld the trial court's decision, deciding that as accommodation makers, the Prudencios were solidary co-debtors.

Issues:
1. **Nature of Liability** – Whether the Prudencios were solidary co-debtors (jointly and severally liable) or sureties (secondary liable) under the promissory note.
2. **Effect of Unauthorized Payment** – Whether PNB's authorization of payments to the Company without the Prudencios' consent altered the contract conditions, releasing the Prudencios from their obligations.

Court's Decision:
1. **Solidary Co-Debtors vs. Sureties** – The Supreme Court held that as accommodation makers under Section 29 of the Negotiable Instruments Law, the Prudencios were primarily and unconditionally liable, typically akin to sureties in essence. However, the Court clarified that regarding a holder for value like PNB, the accommodation makers are treated as solidary co-debtors.
2. **Holder in Due Course** – The Court analyzed whether PNB met the holder in due course criteria and determined that as PNB dealt directly with the Prudencios and infractions influenced the promissory note agreement, it wasn't a holder in due course. PNB didn't act in good faith and had altered the contract terms clandestinely.
3. **Impact of Unauthorized Payments** – By approving payments to the Company against the terms of the assignment and extending the promissory note without the Prudencios' consent, PNB violated the crucial terms on which the Prudencios relied. Hence, PNB was liable for the breach, releasing the Prudencios from their contract obligations.

Doctrine:
The case reiterated the primary and unconditional liability of accommodation makers under the Negotiable Instruments Law but clarified the limitations on enforcement if the holder in due course criteria are not met.

Class Notes:
– **Accommodation Party (Section 29, Negotiable Instruments Law)**: A person who signs the instrument without receiving value and for the purpose of lending their name to another. Their liability is primary and unconditional to a holder for value.
– **Holder in Due Course (Section 52, Negotiable Instruments Law)**: Must acquire the instrument in good faith, for value, and without notice of any issue affecting the validity of the instrument.
– **Implications of Breach (Article 2085, Civil Code)**: If critical conditions in the contract or related agreements are altered without consent, parties like sureties and accommodation makers may be released from their obligations.

Historical Background:
This case arose during an era of post-war reconstruction in the Philippines, where public infrastructure development was critical. Financial institutions like PNB played a crucial role in funding such projects but also positioned themselves at the center of complex legal and financial engagements, often involving individual property owners as guarantors or accommodation parties. This case highlights the banking sector's impact on contractual

obligations and the legal protections available to citizens who unwittingly become entangled in such high-stakes financial dealings.