

### Title:

**Rural Bank of Sta. Maria, Pangasinan vs. Court of Appeals, Rayandayan, Arceño**

### Facts:

1. **Initial Ownership and Mortgage**: A parcel of land in Baguio City, originally part of a larger tract owned by Behis, was mortgaged by Manuel Behis to the Rural Bank of Sta. Maria, Pangasinan on October 23, 1978, securing loans amounting to P156,750.00.
2. **Sale to Rayandayan and Arceño**: On January 9, 1985, Manuel Behis, with his wife Cristina Behis's signature, sold the land to Rosario R. Rayandayan and Carmen R. Arceño via a Deed of Absolute Sale with Assumption of Mortgage for P250,000.00. Simultaneously, another Agreement revealed the actual sale price of P2,400,000.00.
3. **Bank Negotiations & Payments**: Rayandayan and Arceño negotiated with the bank's principal stockholder without disclosing the P2,400,000.00 agreement, resulting in a Memorandum of Agreement on August 1, 1985, restructuring the mortgage payments.
4. **Conflict with Cristina Behis**: Cristina Behis later claimed her signature on the Deed was forged and wrote objection letters to the bank.
5. **Bank & Halsema Agreement**: On July 28, 1986, due to unresolved issues and delayed payments, the bank considered the Memorandum of Agreement null and assigned the mortgage to Halsema, Inc.
6. **Foreclosure and Litigation**: Halsema foreclosed the mortgage, purchasing the land at an auction on September 2, 1986. Rayandayan and Arceño filed a suit on September 5, 1986, seeking specific performance, damages, and annulment of the assignment.

### Issues:

1. **Whether the Memorandum of Agreement between Rayandayan and Arceño and the Rural Bank of Sta. Maria is voidable due to alleged fraud and misrepresentation.**
2. **Whether Rayandayan and Arceño are entitled to moral, exemplary damages, attorney's fees, and litigation expenses.**

### Court's Decision:

**Issue 1: Validity of the Memorandum of Agreement**

- **Fraud and Non-Disclosure**: The Supreme Court ruled that the non-disclosure of the P2,400,000.00 sale price to the bank was not the fraud contemplated under Article 1338 of the Civil Code. The essential consideration for the bank was the settlement of Manuel Behis's debt, not the actual sale price between Behis and Rayandayan/Arceño.
- **Absence of Duty to Disclose**: As per Article 1339 of the Civil Code, there was no

special duty for Rayandayan and Arceño to disclose the real consideration for the sale, nor was there any fraud as per commercial usage or good faith.

- **Other Means of Verification**: The bank had opportunities to verify the financial capacity of Rayandayan and Arceño independently. The financial terms of the Memorandum of Agreement ensured the bank's security remained intact.

#### **Issue 2: Entitlement to Damages**

- **Good Faith and Entitlement**: The Supreme Court upheld that Rayandayan and Arceño acted in good faith, entitling them to awarded damages. The petitioner's claim of deceit was found baseless, given that the primary consideration of the transaction was the settlement of the mortgage.

- **Doctrine on Appeals**: The bank's failure to appeal from the trial court's decision precluded it from achieving any affirmative relief. Consequently, the Court of Appeals' decision awarding damages to Rayandayan and Arceño was affirmed.

#### **Doctrine:**

- **Fraud in Contracts**: Fraud sufficient to annul a contract per Article 1338 requires insidious deceit directly causing the consenting party's agreement. Non-disclosure only constitutes fraud where there is a duty to disclose per Article 1339.

- **Good Faith Requirement**: In contractual dealings, parties are presumed to act in good faith unless proven otherwise.

#### **Class Notes:**

- Fraud (Article 1338)**: Requires insidious acts as inducement to enter a contract.
- Non-Disclosure (Article 1339)**: Constitutes fraud only when there's a duty to disclose.
- Presumption of Regularity**: Parties' actions in private transactions are presumed fair and regular unless fraud is sufficiently demonstrated.
- Elements of Fraud**: (a) Acted by one party, (b) induced the other, (c) serious in nature, (d) caused damage.
- Doctrine of Finality in Appeals**: A party who does not appeal cannot seek affirmative relief on appeal beyond the lower court's decision.

#### **Historical Background:**

This case illustrates the banking practices, real estate dealings, and the complexity of mortgages and contractual disputes in the Philippines during the 1980s. The decision reiterates traditional civil law principles on fraud and the sanctity of contracts, reflecting

the judiciary's role in resolving intricate financial conflicts amidst emerging corporate interests in land development.