

Title: Violeta Tuftud Banate et al. vs. Philippine Countryside Rural Bank (Liloan, Cebu), Inc. and Teofilo Soon, Jr.

Facts:

1. **Loan and Mortgage Execution**: On July 22, 1997, Spouses Rosendo Maglasang and Patrocinia Monilar obtained a loan of PHP 1,070,000.00 from the Philippine Countryside Rural Bank (PCRB), secured by a real estate mortgage over Lot 12868-H-3-C, owned by Spouses Mary Melgrid and Bonifacio Cortel.
2. **Additional Loans**: The Spouses Maglasang procured two other loans from PCRB, secured by separate mortgages on other properties.
3. **Request to Sell and Release Mortgage**: Before the subject loan's due date, in November 1997, the Maglasangs and Cortels sought PCRB's permission to sell the mortgaged property and release it from the mortgage. The PCRB's Branch Manager, Pancrasio Mondigo, allegedly agreed verbally but required full payment of the loan first.
4. **Property Sale and Loan Payment**: They sold the property to Violeta Banate for PHP 1.75 million and used the proceeds to pay the subject loan, after which PCRB delivered the owner's duplicate certificate to Banate.
5. **Denial of Mortgage Release**: Despite the payment, PCRB refused to execute a Deed of Release of Mortgage due to a cross-collateral stipulation and Banate's new title still bore the mortgage lien.
6. **Trial Court Action**: Petitioners filed before the RTC for specific performance to compel the release of the mortgage and claimed for damages over an allegedly malicious publication by PCRB.
7. **RTC Decision**: The RTC ruled in favor of the petitioners, viewing the contract as one of adhesion, and granted the release of the mortgage, along with moral damages and attorney's fees.
8. **CA Appeal**: PCRB appealed, and the CA reversed the RTC decision, emphasizing the cross-collateral stipulation and dismissing Mondigo's verbal agreement.
9. **Petition to the Supreme Court**: Petitioners appealed to the Supreme Court for review on certiorari.

Issues:

1. **Novation of Mortgage Contract**: Whether the verbal agreement between petitioners and Mondigo novated the existing mortgage contract.
2. **Restitution of Payment**: If there was no novation, whether Banate can demand the return of the payment thinking the new agreement was rescinded.
3. **Moral and Other Damages**: Whether the petitioners are entitled to damages due to

PCRB's actions, including an injurious publication.

Court's Decision:

1. **No Novation**: The Court held that the purported agreement with Mondigo did not novate the original mortgage contract, particularly the cross-collateral stipulation. The essential requisites for novation, especially mutual consent for a new obligation, were not met.
2. **Mondigo's Authority**: The petitioners failed to prove Mondigo's actual or apparent authority to verbally alter the mortgage terms. The board of directors had not authorized such an agreement.
3. **No Restitution**: The Court found no basis for restitution under Article 2154 of the Civil Code as PCRB received payment as endorsed by the payee (Mary Melgrid Cortel), not as a mistake by Banate.
4. **Denial of Damages**: With the absence of novation and a valid obligation, the claim for moral damages cannot be sustained. Moreover, there was no proof that PCRB authored the allegedly false publication or acted with malice.

Doctrine:

- **Draagnet Clause**: The "blanket mortgage clause" in the mortgage contract which covers future and other indebtedness is binding.
- **Authority of Corporate Agents**: Actual and apparent authority are necessary for agents to bind a corporation. The apparent authority must be derived from the principal's conduct.
- **Principle of Novation**: Requires explicit agreement extinguishing old and creating new obligations, consent from all parties, and compliance with statutory and corporate authority requirements.

Class Notes:

- **Draagnet Clause**: Covers all obligations of the debtor, both present and future, under a single security instrument.
- **Actual vs. Apparent Authority**: Actual authority comes directly from board resolutions or company bylaws, while apparent authority is inferred from the principal's conduct.
- **Novation Requirements**:
 1. Existing valid obligation.
 2. Mutual agreement for the new obligation.
 3. Extinguishment of the original obligation.
 4. Formation of the new valid obligation.
- **Rescission under Article 2154**: Only applies to payments made by mistake; not

applicable if the payment was rightfully endorsed or without error.

Historical Background:

Coming after the Asian Financial Crisis of 1997, this case demonstrates tensions in creditor-debtor relationships and emphasizes the importance of clear authority and documentation in financial transactions. Amidst economic difficulties, the judiciary reaffirmed the principles around corporate operations and contract adherence, providing a conservative yet stabilizing influence on commercial contracts during volatile economic times. The closure of PCRB in 2008 underlines continuing financial instability which impacts case enforcement and resolution.