

SPOUSES FRANCISCO SIERRA, ET AL. VS. PAIC SAVINGS AND MORTGAGE BANK, INC.

Facts

1. **Loan Acquisition**: On May 31, 1983, Goldstar Conglomerates, Inc. (GCI), represented by Guillermo Zaldaga, secured a P1,500,000.00 loan from First Summa Savings and Mortgage Bank (Summa Bank), which later became Paic Savings and Mortgage Bank, Inc. (PSMB). GCI executed six promissory notes and a Deed of Real Estate Mortgage over a parcel of land as security.
2. **Additional Mortgage**: Petitioners Francisco Sierra, Rosario Sierra, and Spouses Felix and Salome Gatlabayan mortgaged four parcels of land in Antipolo City as additional security. All documents were signed, and Francisco Sierra received four manager's checks amounting to P200,000.00 and several post-dated checks from Zaldaga.
3. **Default and Foreclosure**: GCI defaulted on the loan, prompting PSMB to extrajudicially foreclose the mortgage on the secured properties. PSMB won the bid in the auction held on June 27, 1984 for P2,467,272.66.
4. **Failure to Redeem**: Petitioners did not redeem the properties within the redemption period, leading to the transfer of ownership to PSMB.
5. **Complaint**: On September 16, 1991, petitioners filed a complaint to nullify the mortgage and foreclosure proceedings, alleging that they were misled into the mortgage under the pretense of a loan they could use and were unaware the loan was under GCI's name. They claimed they were not informed that PSMB and Summa Bank were the same entity.
6. **RTC Decision**: The RTC declared the mortgage and foreclosure void, finding that petitioners' consent was vitiated by misrepresentation and awarded damages. PSMB was directed to accept the P200,000.00 loan repayment and was penalized with moral and exemplary damages, attorney's fees, and costs of the suit.
7. **CA Decision**: PSMB's appeal led the CA to reverse the RTC ruling, stating petitioners' claim was unsupported by evidence and had also prescribed. The CA dismissed the case due to laches and lack of merit in their assertions.

Issues

1. **Vitiation of Consent**: Whether petitioners were aware they were merely accommodation mortgagors, thus validating their consent to the mortgage.
2. **Prescription**: Whether the action to nullify the mortgage had prescribed under relevant laws.
3. **Laches**: Whether the petitioners' claim was barred by laches due to their delayed action against the mortgage and foreclosure proceedings.

Court's Decision

1. **Vitiation of Consent**: The Supreme Court held that petitioners' claim of mistaken consent was unsupported by clear evidence. The testimony regarding their education and financial knowledge was uncorroborated. Evidence showed they previously engaged in similar mortgage transactions, indicating familiarity with such dealings. The court concluded their consent was valid, thus the mortgage was not void.
2. **Prescription**: The court determined that the four-year prescriptive period applied to the case. Given the June 19, 1984 notice of foreclosure, the complaint filed on September 16, 1991 was beyond the prescriptive period. As the decision to nullify was based on mistake, an invalid claim of vitiated consent made the issue academic.
3. **Laches**: The delayed action of more than seven years to contest the mortgage and foreclosure showed unreasonable delay justifying laches. The Supreme Court upheld that recognizing petitioners' right after such delay would result in inequity against PSMB.

The Supreme Court affirmed the CA's decision, denying the petition and sustaining the validity of the mortgage and foreclosure proceedings initiated by PSMB.

Doctrine

An accommodation mortgagor who knowingly and willingly mortgages their property for another's loan cannot later claim a lack of consent without clear, corroborated evidence. Actions to nullify voidable contracts must adhere to the four-year prescriptive period from the discovery of mistake or fraud.

Class Notes

- **Accommodation Mortgagor**: A third party who secures another's debt by mortgaging their own property. Their liability is contingent upon the debtor's default.
- **Prescription for Actions on Voidable Contracts**: Under Article 1391 of the Civil Code, actions must be filed within four years from discovering the ground for annulment.
- **Laches**: Recognized by the court where there is an unreasonable delay in pursuing a

legal claim, resulting in prejudice to the other party.

****Relevant Statutes**:**

- ****Article 1390 and 1391, Civil Code****: Contracts executed under mistake, fraud, etc., are voidable and may be annulled within four years from discovering the defect.
- ****Article 2085, Civil Code****: Defines the requirements and liabilities of mortgage contracts.

**Historical Background**

This case reflects the intricacies of property law and the protection of rights in financial transactions during the late 20th century in the Philippines. It underscores the importance of consent and the pitfalls of misunderstanding complex financial agreements. It also illustrates the legal evolution in mortgage and foreclosure proceedings, emphasizing the legal principles of estoppel, prescription, and laches to discourage delayed and insubstantial claims.