

**ANTONIO R. BANZON AND ROSA BALMACEDA, PETITIONERS, VS.
COURT OF APPEALS, MAXIMO R. STA. MARIA AND VALERIANA R.
STA. MARIA, RESPONDENTS.**

G.R. No. L-47258. July 13, 1989

Ponente: FERNAN, C.J.

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FERNAN, C.J.:

In this petition for review on certiorari, We affirm the decision of the Court of Appeals[1] dated July 16, 1976 in CA-G.R. No. 54075-R, entitled "Antonio Banzon, et al., Plaintiffs-Appellees, versus Maximo R. Sta. Maria, et al., Defendants-Appellants" absolving herein private respondents Maximo R. Sta. Maria and Valeriana R. Sta. Maria from any liability arising from petitioners' complaint.

The antecedents are accurately narrated in the decision of the trial court[2] as follows:

"Sometime in the year 1952, defendant Maximo R. Sta. Maria, obtained several crop loans from PNB. For these loans, Associated acted as surety for defendant Maximo R. Sta. Maria by filing surety bonds in favor of PNB to guarantee and answer for the prompt and faithful repayment of said loans. In turn, plaintiff Antonio R. Banzon and one Emilio R. Naval acted as indemnitors of Associated in the indemnity agreements, obligating themselves to indemnify and hold it harmless from any liabilities.

"It further appears, however, that defendant Maximo R. Sta. Maria failed to pay his crop loan obligations in favor of PNB when the same fell due, and accordingly, the bank demanded payment thereof from Associated as surety. Instead of paying the bank, Associated filed a complaint dated November 19, 1956 in the Court of First Instance of Manila against Maximo R. Sta. Maria and indemnitors Banzon and Naval, claiming that the outstanding obligation of defendant Maximo R. Sta. Maria with PNB, as guaranteed by it, amounted to P6,100.00, P9,346.44 and P14,807.52, or an aggregate total of P30,257.86 exclusive of interests. The case was docketed as Civil Case No. 31237 of the said court. On December 11, 1957, a judgment was rendered by said Court sentencing the aforesaid defendants therein to pay jointly and severally unto plaintiff for the benefit of the Philippine National Bank the amounts mentioned above, with interests thereon at 12% per annum, P593.76 for premiums and documentary stamps due and 15% attorney's fees -- the 15% and the interest to be paid for the benefit only of the plaintiff. (Exhibit "C" and Exhibit "2")

"The abovementioned decision in Civil Case No. 31237 became final and executory, and thus, the corresponding writ of execution was issued and the properties of plaintiff Antonio R. Banzon covered by TCT Nos. 39685 and 53759 Registry of Deeds of Rizal, now Caloocan City, were levied and later on sold in execution, with Associated, the judgment creditor, as the highest bidder for the total sum of P44,000.00. On June 27, 1957, the corresponding certificate of sale was issued and the same was duly registered on June 30, 1959. The redemption period having expired, the judgment creditor, the Associated, obtained in due time the final certificate of sale which was likewise duly registered. Demands were made upon plaintiff Antonio R. Banzon to deliver to Associated the owner's duplicates of TCT Nos. 39685 and 53759 but the latter failed to do so. Consequently, Associated filed against Banzon in the Court of First Instance of Rizal in Case No. 3885 G.L.R.O. Rec. No. 11267, a petition for an order directing Banzon to produce and surrender his owner's

duplicates of TCT Nos. 39685 and 53759 to the Register of Deeds of Rizal, for cancellation, and for the latter to subsequently issue new titles in the name of Associated. This petition was vigorously opposed by Banzon based on legal grounds. The Court, in Case No. 3885, issued an order granting the relief prayed for, directing Banzon to surrender the owner's duplicates of TCT Nos. 39685 and 53759. Banzon appealed (G.R. No. L-23971, 26 SCRA 268) and sought reversal of said order, but the Supreme Court in its decision of November 29, 1968 affirmed the lower court's decision.

"The record shows that sometime in 1965, even before ownership over the aforementioned two (2) parcels of land belonging to the Banzons could be consolidated in the name of Associated, the spouses Pedro Cardenas and Leonila Baluyot were able to execute upon and buy one of the said two parcels of land (that covered by TCT No. 39685-Rizal, Lot 6, Block 176 of subdivision plan Psd-2896, G.L.R.O. Rec. No. 11267) to satisfy a judgment debt of Associated in favor of the Cardenas spouses. Parenthetically, that judgment was in favor of the Cardenas spouses as judgment creditors-plaintiffs against Victoria Vda. de Tengco and Pablo Tuazon, judgment-debtors-defendants in Civil Case No. 36194, CFI of Manila and Associated issued a counter-bond in behalf of said defendants to cover Cardenas' judgment.

"Cardenas, being the lone bidder in the auction sale for execution of his judgment for P5,100.00 against Associated, was awarded the property in full satisfaction of his judgment, and eventually succeeded in cancelling Banzon's title and in having a new one (TCT No. 8567-Caloocan City) issued in his name. The Cardenas spouses in due time filed with the Court of First Instance of Rizal, Caloocan City, Branch XII, Reg. Case No. C-211, (LRC Case No. 11267) entitled 'Pedro Cardenas et al., petitioner vs. Antonio Banzon, et al., respondents, for the purpose of securing possession from the Banzons of the lot covered by TCT No. 8567. Accordingly, a writ of possession was issued in said case on May 21, 1965, but its enforcement was suspended in view of the filing with the same court of Civil Case No. C-531 entitled 'Antonio Banzon, et al., vs. Pedro Cardenas and Leonila Baluyot, Associated Insurance and Surety Co., Inc. and Benito Macrohon'. However, in Civil Case No. 531, the court dismissed Banzons' complaint on August 6, 1969, and upheld the validity and legality of the transfer of the property in question to the Cardenas spouses. As a result, Cardenas filed on October 13, 1969, a motion in Case No. C-211 for the issuance of an alias writ of possession which was granted on October 23, 1969. The Banzons, however refused to vacate the premises and to remove the improvements thereon. Because of this, an order was issued on December 9, 1969 for the issuance of a writ of demolition, but its enforcement was not carried out for the reason that a temporary restraining order, later changed to a writ of preliminary injunction, was issued by the Court of Appeals on December 13, 1969 in CA-G.R. No. 44391-R 'Antonio Banzon and Rosa Balmaceda, petitioners v. Hon. Fernando Cruz and spouses Pedro Cardenas and Leonila Baluyot, respondents', in view of the filing by the Banzons with the said appellate court of a petition for injunction.

On February 28, 1970, the Court of Appeals dismissed the petition filed in CA-G.R. No. 44391-R. Cardenas thereafter filed a motion for the enforcement of the order of demolition and writ of possession previously issued in Reg. Case No. C-211. On March 13, 1970, Judge Fernando A. Cruz, of the CFI of Rizal, Caloocan City, Branch XII issued an order granting the aforesaid motion. On March 16, 1970, the Sheriff of Caloocan City gave the Banzons until March 20, 1970 to vacate and deliver possession of the parcel of land covered by TCT No. 8567, and to remove the improvements thereon. The Banzons elevated the matter to the Supreme Court on March 20, 1970 by way of a petition for injunction (G.R. No. L-31789, 45 SCRA 475). The Supreme Court, on March 24, 1970, restrained respondents (Hon. Fernando Cruz, Cardenas spouses and Associated) and their representatives from enforcing the writ of possession and order of demolition and respondent Associated from disposing of its rights and interests over the two lots in question. Cardenas spouses in due time filed their answer, alleging among other things, that ownership of Lot 6, Block 176, covered by TCT No. 8567 had already absolutely and irrevocably vested in them and that there was no longer anything to be restrained considering that per Sheriff's return on March 23, 1970, he had enforced on said date the writ of possession and order of demolition, and had demolished all the improvements erected on the premises. It appears that, in reality, a special deputy sheriff of Rizal succeeded in demolishing Banzon's building erected on the lot in

question notwithstanding the fact that said Sheriff was duly informed by Banzon of the existence of a restraining order. After accomplishing the demolition work, the Sheriff and his men left the premises.

"In the final analysis, the Supreme Court, in G.R. No. L-31789, June 29, 1972, decided as follows:

'WHEREFORE, the petition for a permanent injunction, during the pendency of Civil Case No. 79244 of the Court of First Instance of Manila against the disposition in any manner of the two parcels of land subject of said case other than their reconveyance to petitioners as the true and rightful owners thereof as expressly recognized by the insurance commissioner as liquidator of Associated is hereby granted. In lieu of the permanent injunction against enforcement of respondent court's order dated March 13, 1970 in Case No. C-211 thereof ordering the delivery of possession of the property covered by TCT No. 8567 to respondents Cardenas and demolition of petitioners Banzons' improvements thereon (which were prematurely carried out by respondent court's sheriff on March 23, 1970) a writ of mandatory injunction commanding respondent court to forthwith restore the status ante quo and the property and enjoyment of the fruits and rentals thereof under the terms and conditions stated in the next preceding paragraph is hereby issued, which shall be immediately executory upon promulgation of this decision. With costs against respondents Pedro Cardenas and Leonila Baluyot.

'This decision is without prejudice to such civil and criminal liability as the officers of the defunct Associated Insurance & Surety Co., Inc., may have incurred by virtue of their acts of commission and omission which have resulted in grave prejudice and damage to petitioners as well as the public interests, as in the suppression from and non-surrender to the Insurance Commissioner as liquidator of the records of the relevant antecedent cases, and in the possible misrepresentation to the courts therein that Associated had duly discharged to the bank its liability as surety and could therefore lawfully levy on the properties of Banzon as indemnitor, which would have resulted in respondents' unjust enrichment at Banzon's expense. The Insurance Commissioner is directed to conduct the corresponding investigation for the purpose of filing such criminal and other appropriate actions as may be warranted against the responsible parties. So Ordered.' (45 SCRA 507-508)"[3]

This is the fourth time that this case has reached the Supreme Court. The first was in G.R. No. L-23971 - Associated Insurance & Surety Co., Inc. v. Banzon;[4] the second in G.R. No. L-24765 - PNB v. Sta. Maria et al.;[5] and the third in G.R. No. L-31789 - Banzon v. Cruz.[6]

The facts therefore, have been well established and the resolutions of issues raised have reached finality.

Among others, it has been finally settled in Banzon v. Cruz, supra, that Associated in proceeding against the indemnitor Banzon before proceeding against the principal debtor acted prematurely and it is now holding in trust by force of Article 1456 of the Civil Code, the two lots of Banzon it has wrongfully levied upon in execution and which it is legally bound to return to Banzon, their true and rightful owner.

At any rate, on March 4, 1971, pending resolution of G.R.No. L-31789, petitioners spouses Antonio Banzon and Rosa Balmaceda filed before the then Court of First Instance of Rizal, Caloocan City, a complaint[7] against therein private respondents Maximo and Valeriana Sta. Maria for actual and moral damages in the total amount of P251,750.00 allegedly arising from the deprivation of their property due to the Sta. Marias' failure and refusal to pay their plain, valid and just obligations with the PNB.

In due course, judgment was rendered by the trial court on July 14, 1973, the dispositive portion of which reads as follows:

"FOR ALL THE FOREGOING CONSIDERATIONS, judgment is hereby rendered in favor of the plaintiffs and against the defendants MAXIMO R. STA. MARIA AND VALERIANA R. STA. MARIA, ordering them to pay jointly and severally to plaintiffs the following amounts:

- (1) P6,750.00 as actual and compensatory damages which the plaintiffs are obligated to Atty. Feliberto V. Castillo by way of attorney's fees;
- (2) P10,000.00 as actual damages by way of reimbursement of attorney's fees paid by plaintiffs to Atty. Arsenio O. de Leon;
- (3) P150,000.00 corresponding to the fair value of the lot evidenced by TCT No. 8567-Caloocan City acquired by the Cardenas spouses if in the meantime, it has passed into the hands of an innocent purchaser for value and recovery thereof by plaintiffs become impossible;
- (4) P10,000.00 as actual damages representing the fair value of the house of the plaintiffs which was demolished from their lot located at Caloocan City evidenced by TCT No. 39685 (now TCT No. 8567), plus the unrealized income thereon at the rate of P200.00 per month from April, 1970 until fully paid;
- (5) P50,000.00 as and by way of moral damages; and
- (6) P15,000.00 as attorney's fees incident to the handling of this case, plus costs of the action.

SO ORDERED."[8]

On appeal, however, by herein private respondents, the Court of Appeals reversed the trial court's decision, thus:

"WHEREFORE, in view of the foregoing, this Court hereby reverses and sets aside the appealed decision of the court a quo, and renders this judgment absolving the defendants-appellants from any liability arising from plaintiffs-appellees' Complaint.

"No pronouncement as to costs.

"SO ORDERED."[9]

Both parties moved for a reconsideration, but were denied the relief sought. Consequently, the spouses Banzon filed the instant petition for review on certiorari, raising as issues the following:

1. Whether or not respondent court committed error in sustaining the affirmative/special defense of respondent Valeriana R. Sta. Maria to the effect that the complaint states no cause of action; and in ruling that the cause of action is barred by prior judgment and/or estoppel and laches;
2. Whether or not respondent court erred in basing its decision solely on the judgment of the Supreme Court in an earlier case, Banzon vs. Cruz, G.R. No. L-31789, promulgated on June 29, 1972.[10]

The main issue in this case is whether or not respondent Maximo and Valeriana Sta. Maria are liable to the petitioners for the prejudice and damages the latter suffered in this case.

Petitioners contend that the appellate court erred in disposing of the case on the basis alone of the decision of this Court in Banzon vs. Cruz, G.R. No. L-31789, June 29, 1972 (45 SCRA 475) when the evidence on record and the law show that there are valid causes of action against private respondents as the latter are "guilty of bad faith and with a common plan or design to place Antonio R. Banzon in a bad predicament." They stress that had the private respondents been candid and truthful and not try to avoid their just and valid obligations to the PNB when they had sufficient properties to answer therefor, the Banzons' properties would not have been levied upon and sold in execution.[11]

As earlier indicated, we affirm.

No error was committed by the appellate court in basing its decision upon this Court's findings in Banzon vs. Cruz supra. Said decision was offered as evidence by both parties; as Exhibit "P" for petitioners as plaintiffs therein[12]

and as Exhibit "16" for private respondents as defendants.[13] In fact, the decision under consideration was utilized by the lower court in arriving at its findings of facts, thus:

"From the mass of evidence adduced by the parties, and after taking into consideration the pleadings respectively submitted by their counsels as well as the pertinent Supreme Court decisions reported in 26 SCRA 268, 29 SCRA 303, and 45 SCRA 475, the following facts stand out clear in the records of the case." [14]

What appears to us as error is the trial court's conclusion that private respondents are responsible for the prejudice caused petitioners. This conclusion is in opposition to our clear and unequivocal pronouncement in said *Banzon vs. Cruz* case that the wrongful taking of petitioners' two lots was the direct result of three premature acts, to wit: 1) the action of Associated Insurance and Surety, Inc. against petitioner Banzon; 2) the execution of the 1957 judgment in Civil Case No. 31237; 3) the act of the Sheriff of Caloocan City in demolishing the improvements on one of the lots. These acts do not fall under any of the situations provided for in Article 2071 of the Civil Code wherein the guarantor even before paying may proceed against the principal debtors. Otherwise stated, as a general rule, the guarantor must first pay the outstanding amounts due before it can exact payment from the principal debtor. Hence, since Associated had not paid nor compelled private respondent to pay the bank, it had no right in law or equity to so execute the judgment against Banzon as indemnitor. Coming back to the issue, the appellate court exhibited a higher degree of perception when it held:

"In the first place, it was well established that it was not the defendants who started the series of litigations but the Associated. Instead of fulfilling its obligations to discharge, as a surety, the Sta. Marias' indebtedness. Associated instituted the premature court action against its indemnitors, including Sta. Maria. This premature action of the Associated consequently resulted in the levy and sale of the two lots thereby depriving plaintiffs of their property." [15]

On the other hand, it is a settled principle that moral damages may be recovered if they are the proximate result of the defendant's wrongful act or omission.[16]

While ideally this debacle could have been avoided by private respondents' payment of their obligations to PNB, such fact of non-payment alone, without Associated's premature action and subsequent fraudulent acts, could not possibly have resulted in the prejudice and damage complained of. Thus, while private respondents' non-payment was admittedly the remote cause or the factor which set in motion the ensuing events. Associated's premature action and execution were the immediate and direct causes of the damage and prejudice suffered by petitioners. In other words, active supervening events, consisting of said premature and fraudulent acts of the Associated Insurance and Surety, Inc. had broken the causal connection between the fact of non-payment and the damage suffered by petitioners, so that their claim should be directed not against private respondents but against Associated. Parenthetically, this right of action against Associated had been reserved in petitioners' favor in the *Banzon vs. Cruz* case.

We are convinced that the failure of private respondents to pay their obligations with the PNB was not attended by bad faith or wilful intent to cause injury to petitioners. For as found in *Banzon vs. Cruz*, supra:

"x x x It should be noted therefore, that the debtor Sta. Maria had been making payments all along to the bank on account of his crop loans so much so that by 1963, the total principal due and amount outstanding thereon amounted only to P15,446.44. This amounts to practically one-half of the advance judgment for the total amount of P30,257.86, excluding interests, obtained by Associated six (6) years earlier in 1957 against Banzon 'for the benefit of the Philippine National Bank' allegedly as the amount due from Sta Maria and which Associated as surety would have to pay the bank, and which as it turns out, Associated never paid to the bank." [17]

Consequently, Associated, in not discharging its liability notwithstanding that it had already executed its 1957

judgment against Banzon as indemnitor and taken in execution Banzon's two properties committed rank fraud.

Moreover, under the Civil Code, the damages for which a defendant may be held liable are those which are the natural and probable consequences of the act or omission complained of.[18] As above explained, the prejudice caused petitioners cannot be said to be the natural and probable consequence of private respondents' mere failure to pay their crop loans as such prejudice arose due to active supervening forces or events.

There is no denying that the damage and prejudice suffered by petitioners is too high a price to pay for an act of benevolence. By now, however, they should have obtained adequate relief in accordance with our ruling in *Banzon v. Cruz*, supra, the pertinent portion of which bears reiterating:

"In the case at bar, with the insurance commissioner as liquidator of Associated, recognizing through the Solicitor General that the Banzons' two lots wrongfully taken from them by Associated's premature actions should be reconveyed to them, there is established a clear and indubitable showing on the record that the petitioners are entitled to a writ of restoring the status quo ante. A mandatory writ shall therefore issue commanding respondent court to forthwith restore petitioners to their possession of Lot 6, Block 176, covered by TCT 8567 from which which they have been removed by enforcement of said respondent court's enjoined order of demolition and writ of possession dated March 13, 1970, Annex "F" of the petition. As to petitioners' building thereon claimed to be worth P10,000.00 (but countered by Cardenas to be a mere 'barong-barong'), respondent court shall at Banzon's petition cause respondent Cardenas to restore the demolished building or pay Banzon the determined value thereof. As to the fruits of possession of the land, with Cardenas acknowledging that he has been leasing the same to a third person at P200.00 a month, respondents Cardenas shall forthwith pay to petitioners Banzons the whole amount of rentals so received by them to the time that possession of the lot is effectively restored to petitioners. By the very nature of this mandatory writ, the same shall be immediately executory upon promulgation of this decision." [19]

WHEREFORE, the instant petition for review is hereby DENIED. No pronouncement as to costs.

SO ORDERED.

Gutierrez, Jr., Bidin, and Cortes, JJ., concur.
Feliciano, J., on leave.

[1] Penned by Associate Justice Mariano V. Agcaoili and concurred in by Associate Justices Lourdes P. San Diego and Ameurfina Melencio-Herrera.

[2] Presided by Judge Alberto Q. Ubay.

[3] pp. 128-136, Record on Appeal; p. 55, Rollo. Underscoring ours.

[4] 26 SCRA 268-271 [1968].

[5] 29 SCRA 303 [1969].

[6] 45 SCRA 475 [1972].

[7] Docketed as Civil Case No. C-2052.

[8] pp. 145-146, Record on Appeal, p. 55, Rollo.

[9] pp. 50-51, Rollo.

[10] p. 24, Ibid.

[11] pp. 25-26, Ibid.

[12] p. 88, Record on Appeal, p. 55, Rollo.

[13] p. 106, Ibid; Ibid.

[14] pp. 127-128, Ibid; Ibid.

[15] pp. 43-44, Rollo.

[16] Danao v. C.A., 154 SCRA 448 [1987]; Filinvest Credit Corp. v. Mendez, 152 SCRA 593 [1987]

[17] at p. 483; Emphasis in the original.

[18] See Articles 2201 and 2202,

[19] at pp. 506-507; Emphasis in the original.

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