

**SPOUSES ARTHUR AND HERMELINA DELA PEÑA, SUSAN V. HENARES,
ASSISTED BY HER HUSBAND ESTEBAN C. HENARES, JR.,
PLAINTIFFS-APPELLEES, VS. ADMIRAL UNITED SAVINGS BANK,
RENAN V. SANTOS...**

Ponente: SANTIAGO-LAGMAN, J.

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SANTIAGO-LAGMAN, J.:

Before this Court is an appeal from the Decision[1] dated January 26, 1999 rendered by the Regional Trial Court of Quezon City, Branch 77, declaring as null and void the promissory notes issued by plaintiffs-appellees in favor of defendant-appellant Admiral United Savings Bank (AUSB for brevity) and further holding defendants-appellants jointly and severally liable for moral and exemplary damages, plus attorney's fees and cost of suit.

The antecedent facts of the instant controversy are summarized by the court a quo as follows:

“These are two (2) consolidated civil actions for annulment of documents and damages, filed by spouses Arthur and Hermilina dela Peña (Civil Case No. Q-90-5049) and Susan V. Henares, assisted by her husband, Esteban C. Henares, Jr. (Civil Case No. Q-90-5050) against common defendants, the Admiral United Savings (AUSB), Efren V. Santos (sic) and Corazon C. Vibar.

Plaintiffs-spouses Arthur and Hermilina dela Peña and plaintiffs-spouses Susan and Esteban Henares, Jr. have been residing in Unit No. A-34 and Unit No. A-8, respectively, of the St. Joseph Townhomes, located at Tandang Sora Avenue, Quezon City, which they separately purchased by means of Pag-ibig (National Home Mortgage Finance Corporation) socialized housing loans, with defendant AUSB as the common originating and collecting bank. In applying for their Pag-ibig loans, plaintiffs-spouses Dela Peña and plaintiffs-spouses Henares were required to execute and sign a Loan Agreement and a Loan and Mortgage Agreement, respectively. Under the Pag-ibig socialized housing loan scheme, the contracts are (sic) supposed to be assigned/transferred to the NHMFC, which in turn reimburses the amount released by the collecting bank, defendant AUSB in the present cases. In the normal course of the processing of the subject Pag-ibig Loans by the collecting bank, defendant AUSB required defendants(sic)-spouses Dela Peña to execute and sign a promissory note, designated as REL-269, dated October 21, 1983, in the sum of P122,000.00. In the same manner, defendant AUSB required plaintiffs-spouses Henares to execute and sign a promissory note designated as REL-245, dated September 22, 1983, in the sum of P129,000.00. Both promissory notes were payable in three (3) months, in anticipation of the assignment/transfer to Pag-ibig, representing the interim loan. Aside from accomplishing the loan agreements and promissory notes required by defendant AUSB, the plaintiffs-spouses Dela Peña and plaintiffs-spouses Henares also submitted all the other documents, papers and other matters required of them. Defendants(sic) AUSB then assured them that the purchase of their respective unit was already in order. Subsequently, the developer caused the transfer of the titles of the townhouse units in the names of spouses Dela Peña and spouses Henares. Upon the completion of the construction of the said units, the developer delivered the actual possession thereof to the Dela Peña spouses and Henares spouses and allowed them to stay in and occupy the same as the new owners.

Inasmuch as the contracts of both plaintiffs-spouses had already been assigned/transferred by defendant AUSB to the National Home Mortgage Finance Corporation, the plaintiffs-spouses paid and are still paying their monthly amortizations on the said loans to the Home Development Mutual Fund (HDMF) since then.

The plaintiffs claim that, contrary to the terms and conditions for their purchase of the townhouse units subject matter of these cases, defendant AUSB sought to collect P122,000.00 from plaintiffs-spouses Arthur and Hermilina dela Peña and P129,000.00 from plaintiffs-spouses Susan and Esteban Henares, plus interest, charges and penalties based on the promissory notes already paid and rendered void by the assignment/transfer to NHMFC, since defendant AUSB, upon assignment/transfer, received the value of the said promissory notes from NHMFC.”[2]

After trial on the merits, the court a quo rendered its assailed Decision dated January 26, 1999, the dispositive portion of which reads:

“WHEREFORE, premises considered, judgment is hereby rendered:

- Declaring null and void Promissory Note No. REL-245, dated September 22, 1983, and Promissory Note No. REL-260, dated October 21, 1983, including any and all related documents arising therefrom;
- Adjudging defendants jointly and severally liable to pay plaintiffs-spouses Arthur and Hermelina dela Peña the sum of P100,000.00 and also to pay plaintiffs-spouses Susan and Esteban Henares the same sum of P100,000.00. as and by way of moral damages, and to pay each couple the amount of P25,000.00. as and by way of exemplary damages;
- Ordering defendants to jointly and severally pay attorney’s fees in the amount of P20,000.00 to the plaintiffs-spouses Dela Peña and also to the plaintiffs-spouses Henares.

Likewise, defendants are hereby ordered to pay the costs of suit.

SO ORDERED.”[3]

Aggrieved therefrom, defendants-appellants are now before this Court contesting the aforementioned decision of the lower court on the following grounds:

- “1. THE HONORABLE TRIAL COURT ERRED IN RULING THAT PROMISSORY NOTE(sic) NOS. REL-269 AND REL-245 ARE NULL AND VOID.
2. THE HONORABLE TRIAL COURT ERRED IN RULING UPON THE INSTANT ACTIONS DESPITE ITS LACK OF JURISDICTION.
3. THE HONORABLE TRIAL COURT ERRED IN FINDING DEFENDANT(sic)-APPELLANTS AUSB, RENAN V. SANTOS AND CORAZON C. VIBAR LIABLE FOR DAMAGES AND ATTORNEY’S FEES.
4. THE HONORABLE TRIAL COURT ERRED IN FAILING TO RULE THAT DEFENDANT(sic)-APPELLANTS AUSB, RENAN V. SANTOS AND CORAZON C. VIBAR ARE ENTITLED TO MORAL AND EXEMPLARY DAMAGES AND ATTORNEY’S FEES.”[4]

On the issue of the validity of Promissory Notes Nos. REL-245 and REL-269 issued by plaintiffs-appellees, defendants-appellants contend that the said notes are both valid considering that no legal ground, as provided under Article 1409 of the New Civil Code of the Philippines, was alleged or proven to establish their nullity.

We find the defendants-appellants’ position to be meritorious.

It must be borne in mind that the freedom of contract is both a constitutional and statutory right and to uphold this right, courts should move with all the necessary caution and prudence in holding contracts void.[5] Moreso, a duly

executed contract carries with it the presumption of validity.[6] Thus, it is the burden of the one claiming the nullity of a contract to rebut the presumption of validity.

Relative thereto, Article 1409 of the New Civil Code of the Philippines provides that:

“Art. 1409. The following contracts are inexistent and void from the beginning:

- (1) Those whose cause, object or purpose is contrary to law, morals, good customs, public order or public policy;
- (2) Those which are absolutely simulated or fictitious;
- (3) Those whose cause or object did not exist at the time of the transaction;
- (4) Those whose object is outside the commerce of men;
- (5) Those which contemplate an impossible service;
- (6) Those where the intention of the parties relative to the principal object of the contract cannot be ascertained;
- (7) Those expressly prohibited or declared void by law.”

In this case, plaintiffs-appellees alleged in their respective complaints that the subject promissory notes are null and void there being no valuable consideration to support the same.[7] They further alleged that the loan and mortgage agreements were already assigned/transferred to the National Home Mortgage Finance Corporation for which reason the said promissory notes were already satisfied and rendered void.[8]

Similarly, in declaring the said notes to be null and void, the lower court ruled that:

“The principal issue in these cases is the validity of Promissory (sic) Nos. REL-269 and REL-245, considering that the amounts covered by the said notes were already paid by the Pag-ibig through NHMFC take-out. xxx

xxx. In short, the defendant bank wants to collect from the promissory notes, but, at the same time, it does not dispute that the value of the said promissory notes were paid by the NHMFC to it, when plaintiffs’ separate loans and mortgages were assigned to it (NHMFC) in 1988. In short, there is no more consideration for the said promissory notes thereby rendering the same null and void, or, at least they are already deemed cancelled. It is, therefore, the height of injustice and inequity grossly repugnant to the doctrine of unjust enrichment for the defendant bank to collect from plaintiffs based on valueless and void promissory notes.”

From the foregoing, it is apparent that the focal reason for plaintiffs-appellees in seeking the annulment of the subject promissory notes and for the court a quo in declaring the same null and void is the fact that the respective values of the said notes were already paid/satisfied. However, payment is not one of the instances enumerated under Article 1409 of the New Civil Code for the nullity of a contract.

Payment is merely one of the causes for the extinguishment of obligations.[9] It does not make a contract null and void. On the contrary, the fact of payment supports the validity of the contract for which the obligation to pay arose. The extinguishment of obligations is certainly distinct from the nullity of contracts.

Moreover, Article 1354 of the New Civil Code of the Philippines, presumes that the cause of contracts exists and is lawful, unless the debtor proves the contrary. In the same vein, Section 3 (r) of Rule 131 of the Revised Rules of Court provides for the presumption that there was a sufficient consideration for a contract. Thus, it has been held that to overcome the presumption of consideration, the alleged lack of consideration must be shown by preponderance of evidence.[10] In this aspect, plaintiffs-appellees failed to do so. As a matter of fact,

plaintiffs-appellees themselves stated in their respective complaints that defendant-appellant AUSB required them to sign and execute promissory notes in an amount representing the interim loan to finance the purchase of the townhouse units.[11] Evidently, the consideration for the execution of the promissory notes was the respective loans of plaintiffs-appellees.

From the foregoing, We find that the lower court erred in declaring Promissory Notes Nos. REL-245 and REL-269 as null and void.

Accordingly, the award for moral and exemplary damages, plus attorney's fees and cost of suit in favor of plaintiffs-appellees should be denied for lack of basis.

However, with respect to the counterclaim of defendant-appellant AUSB regarding its demand for the payment of the amounts contained in the promissory notes, the same cannot prosper.

It is a time-honored rule that a contract constitutes the law between the parties and they are, therefore, bound by its stipulations.[12] In the subject loan agreements[13], it is provided therein that the defendant-appellant AUSB approved the Open Housing Loan application of the plaintiffs-appellees with the intention of subsequently transferring/assigning all of the former's rights, title and interests in the loan and its corresponding collaterals to NHMFC.

In this case, the evidence would show that the loan agreement was indeed assigned/transferred to NHMFC. This fact was admitted by defendant-appellant Corazon Vibar who testified as follows:

“ATTY. GUERRERO : Per your records, is it not a fact that upon assignment or transfer of the loan agreement of the plaintiffs, the bank shall then be paid by the National Home Mortgage Finance Corporation the amount of the loan?

WITNESS: Well, the National Home Mortgage will have to process the papers, after processing.

Q: And, if the transfer and the assignment shall be found by the National Home Mortgage Finance Corporation to be proper, then, the National Home Mortgage Finance Corporation will pay the Admiral United Savings Bank?

A: That will depend on the National Home Mortgage Finance Corporation, on the policy.

Q: I am referring to the case of the plaintiffs. Is it not a fact that the loan agreement and the loan documents of the plaintiffs were already assigned and transferred to the National Home Mortgage Finance Corporation?

A: It was transferred to the National Home Mortgage Finance Corporation. The National Home Mortgage Finance Corporation processed the papers in 1985.

Q: To date, Mrs. Witness, the loan documents and loan agreement pertaining to the plaintiffs were already transferred and assigned to the National Home Mortgage Finance Corporation?

A: Yes.”[14]

Necessarily, upon the assignment/transfer of defendant-appellant AUSB's rights, title and interests in the loan and its corresponding collaterals to the National Home Mortgage Finance Corporation, the subject promissory notes executed pursuant to the loan agreements were similarly transferred/assigned to the National Home Mortgage Finance Corporation. Simply put, the promissory notes follow the loan agreements for which they were executed in the first place.

Defendants-appellants' contention that the subject promissory notes were not transferred/assigned to the National Home Mortgage Finance Corporation is bereft of merit.

The contract, in this case, the loan agreements, is the formal expression of the parties' rights, duties and obligations.[15] The terms of the loan agreements is clear that defendant-appellant AUSB extended the loan to plaintiffs-appellees with the intention of subsequently transferring/assigning all of its rights, title and interests in the loan and its corresponding collaterals to National Home Mortgage Finance Corporation. The same is clear and leave no doubt as to the intention of the contracting parties.

Defendants-appellants cannot now claim that the subject promissory notes, which to restate, were executed pursuant to the loan agreements, were not transferred/assigned to the National Home Mortgage Finance Corporation upon the transfer/assignment of the loan agreements, without violating the Parol Evidence Rule which states that:

“When the terms of an agreement have been reduced to writing, it is considered as containing all the terms agreed upon and there can be, as between the parties and their successors in interest, no evidence of such terms other than the contents of the written agreement.”[16]

Consequently, having transferred/assigned all of its rights, title and interests in the loan to National Home Mortgage Finance Corporation, defendant-appellant AUSB cannot now demand payment for the amounts contained in the subject promissory notes for the obvious reason that the loan itself, which is the consideration of the said notes, was already assigned/transferred to the National Home Mortgage Finance Corporation.

Consequently, defendants-appellants' claim for damages, as well as attorney's fees should fail for lack of basis.

In view of the foregoing, We find no necessity in discussing the other assigned errors raised by defendants-appellants .

WHEREFORE, the Decision dated January 26, 1999 rendered by the Regional Trial Court of Quezon City, Branch 77 in Civil Cases Nos. Q-90-5049 and Q-90-5050 is REVERSED and SET ASIDE, and said cases are DISMISSED. Defendants-appellants' counterclaims are likewise DISMISSED.

SO ORDERED.

Guevara-Salonga, (Chairman) and Pizarro, JJ., concur.

[*] Raffled to the Ponente on March 29, 2004.

[1] Rollo, pp. 75-79.

[2] Ibid, pp. 75-76.

[3] Ibid, pp. 78-79.

[4] Ibid, pp. 27-28.

[5] Government Service Insurance System v. Province of Tarlac, 417 SCRA 60 (2003).

[6] Ibid.

[7] Records, pp. 4, 799.

[8] Ibid, pp. 3, 798.

[9] Article 1231 of the New Civil Code of the Philippines.

[10] Spouses Nora and Rolando Saguid v. Security Finance, Inc., G.R. No. 159467, December 9, 2005.

[11] Records, pp. 3, 798.

[12] Dela Torre v. Bicol University, 468 SCRA 542 (2005).

[13] Records, pp. 11-12, 806-807.

[14] TSN dated July 19, 1990, p. 23.

[15] Dela Torre v. Bicol University, *supra*.

[16] Section 9, Rule 130 of the Revised Rules of Court.

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