

PHILIPPINE NATIONAL BANK, PETITIONER, VS. HON. GREGORIO G. PINEDA, IN HIS CAPACITY AS PRESIDING JUDGE OF THE COURT OF FIRST INSTANCE OF RIZAL, BRANCH XXI AND TAYABAS CEMENT COMP...*G.R. No. L-46658. May 13, 1991*

Ponente: FERNAN, C.J.

Read online (full-text search, related cases, audio case brief): <https://batas.org/library/47e9946e1ffe/>**FERNAN, C.J.:**

In this petition for certiorari, petitioner Philippine National Bank (PNB) seeks to annul and set aside the orders dated March 4, 1977 and May 31, 1977 rendered in Civil Case No. 24422[1] of the Court of First Instance of Rizal, Branch XXI, respectively granting private respondent Tayabas Cement Company, Inc.'s application for a writ of preliminary injunction to enjoin the foreclosure sale of certain properties in Quezon City and Negros Occidental and denying petitioner's motion for reconsideration thereof.

In 1963, Ignacio Arroyo, married to Lourdes Tuason Arroyo (the Arroyo Spouses), obtained a loan of P580,000.00 from petitioner bank to purchase 60% of the subscribed capital stock, and thereby acquire the controlling interest of private respondent Tayabas Cement Company, Inc. (TCC).[2] As security for said loan, the spouses Arroyo executed a real estate mortgage over a parcel of land covered by Transfer Certificate of Title No. 55323 of the Register of Deeds of Quezon City known as the La Vista property.

Thereafter, TCC filed with petitioner bank an application and agreement for the establishment of an eight (8) year deferred letter of credit (L/C) for \$7,000,000.00 in favor of Toyo Menka Kaisha, Ltd. of Tokyo, Japan, to cover the importation of a cement plant machinery and equipment.

Upon approval of said application and opening of an L/C by PNB in favor of Toyo Menka Kaisha, Ltd. for the account of TCC, the Arroyo spouses executed the following documents to secure this loan accommodation: Surety Agreement dated August 5, 1964[3] and Covenant dated August 6, 1964.[4]

The imported cement plant machinery and equipment arrived from Japan and were released to TCC under a trust receipt agreement. Subsequently, Toyo Menka Kaisha, Ltd. made the corresponding drawings against the L/C as scheduled. TCC, however, failed to remit and/or pay the corresponding amount covered by the drawings. Thus, on May 19, 1968, pursuant to the trust receipt agreement, PNB notified TCC of its intention to repossess, as it later did, the imported machinery and equipment for failure of TCC to settle its obligations under the L/C.[5]

In the meantime, the personal accounts of the spouses Arroyo, which included another loan of P160,000.00 secured by a real estate mortgage over parcels of agricultural land known as Hacienda Bacon located in Isabela, Negros Occidental, had likewise become due. The spouses Arroyo having failed to satisfy their obligations with PNB, the latter decided to foreclose the real estate mortgages executed by the spouses Arroyo in its favor.

On July 18, 1975, PNB filed with the City Sheriff of Quezon City a petition for extra-judicial foreclosure under Act 3138, as amended by Act 4118 and under Presidential Decree No. 385 of the real estate mortgage over the

properties known as the La Vista property covered by TCT No. 55323.[6] PNB likewise filed a similar petition with the City Sheriff of Bacolod, Negros Occidental with respect to the mortgaged properties located at Isabela, Negros Occidental and covered by OCT No. RT 1615.

The foreclosure sale of the La Vista property was scheduled on August 11, 1975. At the auction sale, PNB was the highest bidder with a bid price of P1,000,001.00. However, when said property was about to be awarded to PNB, the representative of the mortgagor-spouses objected and demanded from the PNB the difference between the bid price of P1,000,001.00 and the indebtedness of P499,060.25 of the Arroyo spouses on their personal account. It was the contention of the spouses Arroyo's representative that the foreclosure proceedings referred only to the personal account of the mortgagor spouses without reference to the account of TCC.

To remedy the situation, PNB filed a supplemental petition on August 13, 1975 requesting the Sheriff's Office to proceed with the sale of the subject real properties to satisfy not only the amount of P499,060.25 owed by the spouses Arroyos on their personal account but also the amount of P35,019,901.49 exclusive of interest, commission charges and other expenses owed by said spouses as sureties of TCC.[7] Said petition was opposed by the spouses Arroyo and the other bidder, Jose L. Araneta.

On September 12, 1975, Acting Clerk of Court and Ex-Officio Sheriff Diana L. Dungca issued a resolution finding that the questions raised by the parties required the reception and evaluation of evidence, hence, proper for adjudication by the courts of law. Since said questions were prejudicial to the holding of the foreclosure sale, she ruled that her "Office, therefore, cannot properly proceed with the foreclosure sale unless and until there be a court ruling on the aforementioned issues." [8]

Thus, in May 1976, PNB filed with the Court of First Instance of Quezon City, Branch V a petition for mandamus [9] against said Diana Dungca in her capacity as City Sheriff of Quezon City to compel her to proceed with the foreclosure sale of the mortgaged properties covered by TCT No. 55323 in order to satisfy both the personal obligation of the spouses Arroyo as well as their liabilities as sureties of TCC. [10]

On September 6, 1976, the petition was granted and Dungca was directed to proceed with the foreclosure sale of the mortgaged properties covered by TCT No. 55323 pursuant to Act No. 3135 and to issue the corresponding Sheriff's Certificate of sale. [11]

Before the decision could attain finality, TCC filed on September 14, 1976 before the Court of First Instance of Rizal, Pasig, Branch XXI a complaint [12] against PNB, Dungca, and the Provincial Sheriff of Negros Occidental and Ex-Officio Sheriff of Bacolod City seeking, inter alia, the issuance of a writ of preliminary injunction to restrain the foreclosure of the mortgages over the La Vista property and Hacienda Bacon as well as a declaration that its obligation with PNB had been fully paid by reason of the latter's repossession of the imported machinery and equipment. [13]

On October 5, 1976, the CFI, thru respondent Judge Gregorio Pineda, issued a restraining order [14] and on March 4, 1977, granted a writ of preliminary injunction. [15] PNB's motion for reconsideration was denied, hence this petition.

Petitioner PNB advances four grounds for the setting aside of the writ of preliminary injunction, namely: a) that it contravenes P. D. No. 385 which prohibits the issuance of a restraining order against a government financial institution in any action taken by such institution in compliance with the mandatory foreclosure provided in Section 1 thereof; b) that the writ countermands a final decision of a co-equal and coordinate court; c) that the writ seeks to prohibit the performance of acts beyond the court's territorial jurisdiction; and, d) private respondent TCC has not shown any clear legal right or necessity to the relief of preliminary injunction.

Private respondent TCC counters with the argument that P.D. No. 385 does not apply to the case at bar, firstly because no foreclosure proceedings have been instituted against it by PNB and secondly, because its account under the L/C has been fully satisfied with the repossession of the imported machinery and equipment by PNB.

The resolution of the instant controversy lies primarily on the question of whether or not TCC's liability has been extinguished by the repossession of PNB of the imported cement plant machinery and equipment.

We rule for the petitioner PNB. It must be remembered that PNB took possession of the imported cement plant machinery and equipment pursuant to the trust receipt agreement executed by and between PNB and TCC giving the former the unqualified right to the possession and disposal of all property shipped under the Letter of Credit until such time as all the liabilities and obligations under said Letter had been discharged.[16] In the case of *Vintola vs. Insular Bank of Asia and America*[17] wherein the same argument was advanced by the Vintolas as trustees of imported seashells under a trust receipt transaction, we said:

"Further, the VINTOLAS take the position that their obligation to IBAA has been extinguished inasmuch as, through no fault of their own, they were unable to dispose of the seashells, and that they have relinquished possession thereof to the IBAA, as owner of the goods, by depositing them with the Court.

The foregoing submission overlooks the nature and mercantile usage of the transaction involved. A letter of credit-trust receipt arrangement is endowed with its own distinctive features and characteristics. Under that set-up, a bank extends a loan covered by the Letter of Credit, with the trust receipt as a security for the loan. In other words, the transaction involves a loan feature represented by the letter of credit, and a security feature which is in the covering trust receipt.

.....

A trust receipt, therefore, is a security agreement, pursuant to which a bank acquires a 'security interest' in the goods. It secures an indebtedness and there can be no such thing as security interest that secures no obligation. As defined in our laws:

(h) 'Security interest' means a property interest in goods, documents or instruments to secure performance of some obligations of the entrustee or of some third persons to the entruster and includes title, whether or not expressed to be absolute, whenever such title is in substance taken or retained for security only.'

.....

Contrary to the allegation of the VINTOLAS, IBAA did not become the real owner of the goods. It was merely the holder of a security title for the advances it had made to the VINTOLAS. The goods the VINTOLAS had purchased through IBAA financing remain their own property and they hold it at their own risk. The trust receipt arrangement did not convert the IBAA into an investor; the latter remained a lender and creditor.

.....

Since the IBAA is not the factual owner of the goods, the VINTOLAS cannot justifiably claim that because they have surrendered the goods to IBAA and subsequently deposited them in the custody of the court, they are absolutely relieved of their obligation to pay their loan because of their inability to dispose of the goods. The fact that they were unable to sell the seashells in question does not affect IBAA's right to recover the advances it had made under the Letter of Credit."

PNB's possession of the subject machinery and equipment being precisely as a form of security for the advances given to TCC under the Letter of Credit, said possession by itself cannot be considered payment of the loan secured thereby. Payment would legally result only after PNB had foreclosed on said securities, sold the same and applied the proceeds thereof to TCC's loan obligation. Mere possession does not amount to foreclosure for

foreclosure denotes the procedure adopted by the mortgagee to terminate the rights of the mortgagor on the property and includes the sale itself.[18]

Neither can said repossession amount to dacion en pago. Dation in payment takes place when property is alienated to the creditor in satisfaction of a debt in money and the same is governed by sales.[19] Dation in payment is the delivery and transmission ownership of a thing by the debtor to the creditor as an accepted equivalent of the performance of the obligation.[20] As aforesaid, the repossession of the machinery and equipment in question was merely to secure the payment of TCC's loan obligation and not for the purpose of transferring ownership thereof to PNB in satisfaction of said loan. Thus, no dacion en pago was ever accomplished.

Proceeding from this finding, PNB has the right to foreclose the mortgages executed by the spouses Arroyo as sureties of TCC. A surety is considered in law as being the same party as the debtor in relation to whatever is adjudged touching the obligation of the latter, and their liabilities are interwoven as to be inseparable.[21] As sureties, of the Arroyo spouses are primarily liable as original promissors and are bound immediately to pay the creditor the amount outstanding.[22]

Under Presidential Decree No. 385 which took effect on January 31, 1974, government financial institutions like herein petitioner PNB are required to foreclose on the collaterals and/or securities for any loan, credit or accommodation whenever the arrearages on such account amount to at least twenty percent (20%) of the total outstanding obligations, including interests and charges, as appearing in the books of account of the financial institution concerned.[23] It is further provided therein that "no restraining order, temporary or permanent injunction shall be issued by the court against any government financial institution in any action taken by such institution in compliance with the mandatory foreclosure provided in Section 1 hereof, whether such restraining order, temporary or permanent injunction is sought by the borrower(s) or any third party or parties . . . "[24]

It is not disputed that the foreclosure proceedings instituted by PNB against the Arroyo spouses were in compliance with the mandate of P.D. 385. This being the case, the respondent judge acted in excess of his jurisdiction in issuing the injunction specifically proscribed under said decree.

Another reason for striking down the writ of preliminary injunction complained of is that it interfered with the order of a co-equal and coordinate court. Since Branch V of the CFI of Rizal had already acquired jurisdiction over the question of foreclosure of mortgage over the La Vista property and rendered judgment in relation thereto, then it retained jurisdiction to the exclusion of all other coordinate courts over its judgment, including all incidents relative to the control and conduct of its ministerial officers, namely the sheriff thereof.[25] The foreclosure sale having been ordered by Branch V of the CFI of Rizal, TCC should not have filed injunction proceedings with Branch XXI of the same CFI, but instead should have first sought relief by proper motion and application from the former court which had exclusive jurisdiction over the foreclosure proceeding.[26]

This doctrine of non-interference is premised on the principle that a judgment of a court of competent jurisdiction may not be opened, modified or vacated by any court of concurrent jurisdiction.[27]

Furthermore, we find the issuance of the preliminary injunction directed against the Provincial Sheriff of Negros Occidental and ex-officio Sheriff of Bacolod City a jurisdictional faux pas as the Courts of First Instance, now Regional Trial Courts, can only enforce their writs of injunction within their respective designated territories.[28]

WHEREFORE, the instant petition is hereby granted. The assailed orders are hereby set aside. Costs against private respondent.

Gutierrez, Jr., Feliciano, Bidin, and Davide, Jr., JJ., concur.

-
- [1] Entitled "Tayabas Cement Company, Inc. vs. Philippine National Bank, et al."
- [2] Formerly known as Clep Cement Corporation.
- [3] pp. 126-127, Rollo.
- [4] pp. 128-129, Rollo.
- [5] p. 115, Rollo.
- [6] p. 194, Rollo.
- [7] p. 144, Rollo.
- [8] p. 80, Rollo.
- [9] Docketed as Civil Case No. Q-21505.
- [10] p. 769, Rollo.
- [11] p. 150, Rollo.
- [12] Docketed as Civil Case No. 24422.
- [13] pp. 33-60, Rollo.
- [14] p. 81, Rollo.
- [15] p. 369, Rollo.
- [16] p. 113, Rollo.
- [17] G. R. No. 73271, May 29, 1987, 150 SCRA 578.
- [18] Development Bank of the Philippines vs. Zaragoza, 84 SCRA 668.
- [19] Art. 1245, Civil Code.
- [20] 2 Castan 525; 8 Manresa 324.
- [21] Government of the Philippines vs. Tizon, 20 SCRA 1187.
- [22] Castellvi de Higgins and Higgins vs. Sellner, 41 Phil. 142; U. S. vs. Veradero de la Quinta, 40 Phil. 48; Lirag Textile Mills, Inc. vs. Social Security System, G. R. No. 33205, August 31, 1988.
- [23] Section 1, P. D. 385.
- [24] Section 2.
- [25] De Leon vs. Salvador, G.R. No. L-31603, December 28, 1970, 36 SCRA 567.
- [26] Ibid.
- [27] Republic vs. Judge Reyes, citing 30 A Am Jur 605, G. R. Nos. 30263-5, October 30, 1987, 155 SCRA 313.
- [28] Interim Rules to the Judicial Reorganization Act of 1981 dated January 11, 1983, General Provisions, A, 3 (a).

ABOUT BATAS.ORG

Study smarter at BATAS.org

The Philippine bar review and law-school companion built around how your brain actually remembers.

The complete Philippine law library - free for everyone.

More than 100,000 Supreme Court decisions, Republic Acts, and executive issuances - full-text searchable, browsable by category and year, and always free. No paywall, no login. This PDF came from it.

Audio case-brief lectures.

Any decision becomes a podcast-style lecture - facts, issues, ruling, and doctrine - with read-along highlighting and a hands-free presentation mode. Study while commuting, working out, or resting your eyes.

Bar review built on the science of memory.

Complete, sequenced courses for all eight bar subjects, narrated like podcasts and reinforced with retrieval practice and spaced review - the study techniques with the strongest evidence behind them.

The full law-school curriculum.

One subscription unlocks the entire J.D. curriculum - every subject, every lesson, with your progress tracked down to the paragraph so you can pick up exactly where you left off, on any device.

Mock exams that tell you where you stand.

Timed multiple-choice exams graded instantly, with per-subject score breakdowns and focus suggestions that point you at your weakest topics first.

A study planner that keeps you on pace.

Set your schedule and BATAS tells you every day whether you are on track for bar day - and exactly which lesson to take next.

Start free at <https://batas.org>

The law library is free forever - and your first lesson is one click away.

The text of this document is an official public record and remains in the public domain. Formatting, presentation, and compilation © 2026 batas.org.

Downloaded free from the batas.org Law Library. Share it freely - the library is free for every law student, bar reviewee, and practitioner.