

MARIA LOCSIN VDA. DE ARANETA, PETITIONER, VS. EDITH PEREZ DE TAGLE-MARCELO, FELIX GONZALES, AND THE HON. COURT OF APPEALS, RESPONDENTS.

G.R. No. L-24300. February 28, 1978

Ponente: FERNANDEZ, J.

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FERNANDEZ, J.:

This is a petition to review the decision of the Court of Appeals in CA-G.R. No. 26659-R, entitled "Edith Perez de Tagle-Marcelo, Plaintiff and Appellant, versus Maria Locsin Vda. de Araneta, Defendant and Appellee, Maria Locsin Vda. de Araneta, Third-Party Plaintiff and Appellee, versus Felix Gonzales, Third-Party Defendant and Appellant," as amended by its resolution promulgated on January 26, 1965.[1]

The dispositive part of the original decision of the Court of Appeals promulgated on September 24, 1964 reads:

"WHEREFORE, the judgment appealed from is hereby modified by absolving the plaintiff from paying the defendant damages and attorney's fees; ordering the third-party defendant to pay the defendant the sum of P2,805.95, with legal interest thereon from August 1, 1958, moral and exemplary damages in the sum of P10,000.00 and attorney's fees in the sum of P5,000.00. Costs against the third-party defendant-appellant.

SO ORDERED.

SALVADOR V. ESGUERRA
Associate Justice

CONRADO V. SANCHEZ JUAN P. ENRIQUEZ
Presiding Justice Associate Justice"[2]

Said decision was modified by the resolution promulgated on January 26, 1965, which held "that defendant-appellee is not entitled to recover any amount for moral and exemplary damages, as well as the amount of P2,805.95, from the third-party defendant."[3]

On March 4, 1958, Edith Perez de Tagle-Marcelo instituted against Maria Locsin Vda. de Araneta Civil Case No. Q-2869 in the Court of First Instance of Rizal at Quezon City for accounting of the harvest on a parcel of land located in Bago, Occidental Negros and for recovery of actual and moral damages, as well as attorney's fees and expenses of litigation.

The complaint[4] stated that the plaintiff is the owner of a parcel of land together with all the improvements thereon, situated in the Municipality of Bago, Province of Negros Occidental, identified as Lot No. 850 of the Cadastral Survey of Bago, with an area of 1,066,475 square meters, more or less, having acquired the same by purchase on or about February 6, 1957 of the former owner's rights and interest thereon; that sometime in June of 1957, the defendant Maria Locsin Vda. de Araneta, knowing full well that plaintiff was already the owner of the aforesaid parcel of land and acting in gross and evident bad faith and in utter disregard of plaintiff's rights in the premises, worked and cultivated and/or caused to be worked and cultivated and subsequently planted to rice the

aforesaid parcel of land, without obtaining plaintiff's previous consent; that during the months of December 1957 and January 1958, defendant, likewise without obtaining plaintiff's previous consent and without even informing plaintiff, and acting again in gross and evident bad faith and in complete disregard of plaintiff's rights, harvested and/or caused to be harvested and appropriated as her own all the produce of the aforesaid parcel of land; that in December 1957, upon receiving information that defendant had worked and cultivated the aforesaid land, sown thereon and was gathering the products therefrom, the plaintiff demanded an accounting and delivery of the harvest to her, which amounted to about 1,400 cavanese of palay, at a value of P12.00 per cavan or a total of P16,800.00; that defendant ignored plaintiff's demands and up to that date had refused to deliver the harvest and/or render an accounting to the plaintiff; that on account of defendant's acts as aforesaid, the plaintiff sustained moral damages in the sum of P50,000.00; that in order to avoid this action, plaintiff sent an attorney-in-fact to Bago, Negros Occidental, for the purpose of demanding an accounting from defendant and when the latter refused to deal with him, plaintiff herself went to Bago for the same purpose, all of which efforts at amicable settlement were rebuffed by the defendant; that incidental to these efforts at settlement, the plaintiff incurred actual damages by way of transportation to and from Bago and living expenses thereat of herself and her attorney-in-fact in the total amount of P2,000.00; and that for the institution of this action, the plaintiff agreed to pay her counsel a fee of P5,000.00, and plaintiff also incurred an additional expense of P60.00 for the filing of this complaint.

In her amended answer^[5] dated June 17, 1958, the defendant alleged that Lot No. 850 of the Cadastral Survey of Bago, Negros Occidental (hacienda) was the absolute property of one Felix Gonzales who had mortgaged the same to the Philippine National Bank as well as to the Rehabilitation Finance Corporation; that the Rehabilitation Finance Corporation subsequently foreclosed the mortgage and acquired the hacienda in ownership as a result of the foreclosure of the mortgage inasmuch as no redemption of the land was made; that defendant was the lessee of the aforesaid hacienda from Gonzales in a stipulated annual rental of P3,000.00; that as such lessee, she planted, cultivated and raised the corresponding palay crop on the hacienda; that defendant had never dealt with anybody else concerning the hacienda except with Gonzales or his wife, as lessors; that to accommodate them, the defendant signed on March 3, 1956 a joint and several promissory note for P5,000.00 with these lessors in favor of the Philippine National Bank; that the Philippine National Bank attempted to withhold P3,000.00 out of the P75,000.00 time loan subsequently extended by the said bank to the defendant; that the money to be withheld was to be applied to the P5,000.00 joint and several promissory note executed by the defendant with these lessors should the latter not pay the obligation within the time or extension allowed by the bank; and that the defendant was in possession of the property as lessee of Gonzales from the crop year 1955-56 and the lease was renewed for the 1957-58 crop year on the request of the lessors. The defendant interposed a counterclaim against the plaintiff for moral and exemplary damages as well as attorney's fees.

The defendant, Maria Locsin Vda. de Araneta, filed against Felix Gonzales a third party complaint dated June 17, 1958, which alleged that the third-party defendant was formerly the owner of Lot No. 850 of the Cadastral Survey of Bago, Negros Occidental, formerly covered by Transfer Certificate of Title No. T-2955 of the land records of Negros Occidental, issued by the Register of Deeds on May 6, 1948 in the name of said third-party defendant; that Lot No. 850 of Bago (hacienda) is suitable for the production of palay, and for the crop years 1955-56 and 1956-57, the third-party defendant leased the same to the third-party plaintiff who accepted the possession thereof in lease, on a stipulated rental of P3,000.00 per crop year; that after the expiration of the 1956-57 crop year, the third-party plaintiff wanted to return the hacienda to the third-party defendant, and in this manner terminate the lease, but the third-party defendant earnestly urged and begged the third-party plaintiff to continue the lease thereof at the same rate of rental as the previous crop years and the third-party plaintiff agreed and continued as lessee thereof for the 1957-58 crop year, it being understood that the rental would be payable at the end of the

1957-58 crop year should the third-party defendant not have any accounts with the third-party plaintiff; that on March 3, 1956, the third-party defendant and his wife applied for a loan in the sum of P5,000.00 from the Philippine National Bank, Manila; that on the earnest request and solicitation of the third-party defendant, the third-party plaintiff became a co-maker on the corresponding promissory note for P5,000.00 in favor of said bank which granted the said loan to third-party defendant and his wife, only upon the third-party plaintiff's signing and binding herself as joint solidary co-maker of the corresponding promissory note for P5,000.00; that the third-party defendant and his wife received the proceeds of the aforesaid loan of P5,000.00 from the Philippine National Bank; that the loan matured on July 17, 1956, but notwithstanding several demands on and extensions granted by the Philippine National Bank to the third-party defendant and his wife, they did not pay the principal and interests of the said loan; that according to the last demand letter of the said bank dated May 5, 1958, the loan amounted to P5,720.00 including interests as of said date; that on November 19, 1957, the Philippine National Bank, Bacolod Branch, granted and approved a time loan in the amount of P75,000.00 in favor of the third-party plaintiff who had a hard time obtaining a release by said bank of the full amount of said loan because the Philippine National Bank wanted to withhold P3,000.00, equivalent to the rentals for the hacienda corresponding to the 1957-58 crop year; that it was after repeated and sincere representations effected by the third-party plaintiff with the Philippine National Bank, Bacolod Branch, that the full amount of the loan was released; that meantime, the abovementioned hacienda was mortgaged by the third-party defendant to the Rehabilitation Finance Corporation and by reason of the non-payment of the RFC Loan, the RFC foreclosed the mortgage and on January 30, 1957 acquired at extra-judicial foreclosure sale the said property subject to a one-year right of redemption; that by reason of the filing by the original plaintiff Marcelo, in collusion with the third-party defendant, of this action, the third-party plaintiff has suffered mental anguish, serious anxiety, loss of sleep, besmirched reputation, wounded feelings, moral shock and social humiliations which should be compensated by the third-party defendant, jointly and severally with the original plaintiff Marcelo, in the total amount of P50,000.00 by way of moral damages; that because of the institution of this malicious and unfounded action, springing from the conspiracy and collusion between the original plaintiff Marcelo and the third-party defendant, exemplary damages in the sum of P25,000.00, in addition to the moral damages, should likewise be imposed jointly and severally against the third-party defendant Gonzales and original plaintiff Marcelo, in favor of the third-party plaintiff, by way of example or correction for the public good; that due to the institution of this action, the third-party plaintiff has had to incur expenses to protect her interest, obtaining the services of counsel in the sum of P5,000.00 to protect, preserve and enforce her rights, which attorney's fees should likewise be borne or otherwise paid for jointly and severally by third-party defendant and original plaintiff Marcelo, who had demonstrated gross and evident bad faith, particularly there scheme at the utilization of judicial processes as an instrument or weapon for the perpetration of a fraud.[6]

The third-party defendant, Felix Gonzales, alleged as affirmative defenses that the third party complaint is improper because the same does not arise out of the transaction or occurrence subject of the plaintiff's complaint, which is an ordinary action for accounting instituted by the landlord's successor-in-interest against one who was admittedly a tenant; that the third party complaint is also improper in so far as it assails the validity of the transfer of rights made by the third-party defendant in favor of the plaintiff over the hacienda in question for the reason that a person who is not a party to the contract and who is not principally or subsidiarily bound thereby has no capacity to challenge the legality of the same; and that the third-party plaintiff is not entitled to the relief prayed for in her third party complaint for the reason that the same is a false and sham pleading. The third-party defendant interposed a counterclaim for damages and attorney's fees. As alternative counterclaim, the third-party defendant asked that the third-party plaintiff be ordered to pay the stipulated rent corresponding to the crop year 1957-58.[7]

The trial court rendered its decision dated August 31, 1959, the dispositive part of which reads:

"WHEREFORE, the court renders judgment, one in favor of the defendant, Maria Locsin Vda. de Araneta, and against the plaintiff, Edith Perez de Tagle-Marcelo, and the third-party-defendant, Felix M. Gonzales, by dismissing both the complaint as well as the counterclaim of the third-party-defendant, against the third-party-plaintiff, for said defendant, Mrs. Araneta to recover the sum of P10,000.00 with legal rate of interest against the plaintiff and the third-party-defendant, jointly and severally, for both moral and exemplary damages, plus P5,000.00 as attorney's fees, with costs against plaintiff and third-party defendant.

SO ORDERED.

Quezon City, August 31, 1959.

(Sgd.) NICASIO YATCO
Judge"[8]

The plaintiff and third-party defendant appealed to the Court of Appeals where the action was docketed as CA-G.R. No. 26659-R.

From the amended decision of the Court of Appeals, Maria Locsin Vda. de Araneta appealed to this Court assigning the following errors:

"I

THE COURT OF APPEALS ERRED IN ELIMINATING FROM ITS ORIGINAL DECISION THE AWARD OF P2,805.95 AGAINST THIRD-PARTY DEFENDANT FELIX GONZALES IN FAVOR OF THIRD-PARTY PLAINTIFF (NOW PETITIONER) MARIA LOCSIN VDA. DE ARANETA, THERE BEING NO VALID GROUNDS FOR DOING SO.

II

THE COURT OF APPEALS ALSO ERRED IN ELIMINATING FROM ITS ORIGINAL DECISION THAT PORTION THEREOF SENTENCING THIRD-PARTY DEFENDANT FELIX GONZALES TO PAY THIRD-PARTY PLAINTIFF (NOW PETITIONER) MARIA LOCSIN VDA. DE ARANETA MORAL AND EXEMPLARY DAMAGES, IT HAVING EXPRESSLY AND DEFINITELY FOUND THAT SAID THIRD-PARTY DEFENDANT WAS GUILTY OF FRAUD AND BAD FAITH VIS A VIS SAID THIRD-PARTY PLAINTIFF."[9]

The facts, as found by the Court of Appeals, are:

"The facts of this case as established by the documentary evidence on record are as follows: Lot No. 850 of the Cadastral Survey of Bago, Negros Occidental, with Transfer Certificate of Title No. T-2955 in the name of Felix Gonzales, was leased by the latter in favor of Maria Locsin Vda. de Araneta for a period of three years covering the agricultural years 1955-56, 1956-57 and 1957-58 at an annual rental of P3,000.00 payable in advance. The lessee paid the rentals for the first two crop years (Exhibits 1, 1-A, 1-B-Araneta).

At the time, the land was mortgaged in favor of the now defunct Rehabilitation Finance Corporation as security for a loan of P29,031.67 obtained by Gonzales in 1951.

On March 3, 1956, Gonzales obtained a loan of P5,000.00 from the Philippine National Bank for which Mrs. Araneta signed the promissory note as an accommodation co-maker.

On October 26, 1956, Mrs. Araneta received a notice of garnishment issued in Civil Case No. 1912 (Felix Gonzales vs. Bibiana Infante, et al., CFI, Negros Occidental), advising her that judgment was rendered in said case against Gonzales for the sum of P27,050.56 and enjoining her not to deliver, transfer or otherwise dispose

of the rents payable by her to said Gonzales (Exhibits D and D-1).

On January 30, 1957, the mortgage on the land in question was foreclosed extra-judicially and was sold at public auction, wherein the Rehabilitation Finance Corporation was the purchaser and the certificate of sale was correspondingly issued in favor of said Corporation, subject to mortgagor Gonzales' right of redemption in one year, to expire on January 3, 1958.

On February 6, 1957, Gonzales executed a deed of assignment whereby, in consideration of the sum of P5,000.00, he transferred his right of redemption over the property in favor of plaintiff Edith Perez de Tagle-Marcelo (Exhibit A).

In January, 1958, Mrs. Marcelo, on the strength of the deed of assignment, paid the Rehabilitation Finance Corporation the amount of P3,605.76 as 'deposit to repurchase the property' and in a letter to the Corporation requested that she be allowed to pay the consideration of the sale on a ten percent down payment and the balance on a ten-year annual amortization plan, which offer was accepted by the Board of Governors of the Corporation in its Resolution No. 1520, adopted on February 19, 1958 (Exhibits M, N, N-1, O, P). Pursuant to said Resolution, a deed of conditional sale of the property was executed on December 17, 1958, in favor of Mrs. Marcelo, although the title thereto, Transfer Certificate of Title No. 22914 issued upon the consolidation of title, remained in the name of the Rehabilitation Finance Corporation 'as security for the payment of the price, advances and interest.' (Exhibit E).

In the meantime, on December 27, 1957, Mrs. Marcelo wrote Mrs. Araneta her first letter, which was followed by several others, informing the latter of the assignment in her favor of Gonzales' right of redemption over the property and demanding that she (Mrs. Araneta) pay her the P3,000.00 rental for the crop year 1957-58 (Exhibits E, F, G, J).

On March 4, 1958, Mrs. Marcelo instituted the instant action against Mrs. Araneta for 'an accounting of the harvest gathered by her from the land, damages and attorney's fees.'

Mrs. Araneta impleaded Gonzales as third-party defendant and demanded moral and exemplary damages from said third-party defendant and the plaintiff. She alleged in her answer and in her third-party complaint that said parties acted in collusion in executing the deed of assignment, Exhibit A, which is void for being fictitious and in fraud of creditors and was executed particularly to enable Gonzales to collect from defendant the rental for the crop year 1957-58 without his paying first his indebtedness to the Philippine National Bank in the amount of P5,000.00 which matured on July 17, 1956, and for which she (Mrs. Araneta) may have to pay as accommodation co-maker, since Gonzales was then already insolvent. Mrs. Araneta, in fact paid said loan on August 1, 1958, when the amount of P5,805.95, representing the principal and the interests on said loan, was deducted from her own loan from the Philippine National Bank in the amount of P75,000.00, which payment was one of the conditions for the approval thereof." [10]

The contention of the petitioner that the Court of Appeals erred in eliminating from its original decision the award of P2,805.95 against the third-party defendant, Felix Gonzales, in favor of said petitioner, Maria Locsin Vda. de Araneta, is not meritorious.

It is a fact that the petitioner co-signed with the third-party defendant, Felix Gonzales, a promissory note for P5,000.00 in favor of the Philippine National Bank. Felix Gonzales received the full amount of P5,000.00. He failed to pay said amount. The total amount of P5,805.95 consisting of the principal and accrued interest was deducted by the Philippine National Bank from the proceeds of the loan of P75,000.00 obtained from said bank by the petitioner. After deducting the amount of P3,000.00 due from the petitioner as rental for the agricultural year 1957-58, there remained the amount of P2,805.95 which the Court of Appeals in its original decision ordered Felix Gonzales to pay to the petitioner. The only reason why the Court of Appeals eliminated the payment of this amount in its resolution promulgated on January 26, 1965 is that the petitioner did not appeal from the judgment

of the trial court which failed to order the third-party defendant to reimburse her the amount of P2,805.95.

It is true that the petitioner did not appeal from the decision of the trial court. Hence she may not now ask that Felix Gonzales be ordered to pay her the sum of P2,805.95. It is to be noted, however, that the trial court awarded the petitioner the amount of P10,000.00 as moral and exemplary damages. We maintain the said award of P10,000.00 in so far as Felix Gonzales is concerned.

The Court of Appeals found that Felix Gonzales, the third-party defendant, now private respondent, was guilty of fraud because:

"On the other hand, the bad faith of the third-party defendant is patent. His corresponding liability for damages and attorney's fees is, therefore, clear (Article 2220 and Art. 2203, par. 11). He was in admitted financial straits when he transferred his right of redemption for a valuable consideration, thereby placing said right beyond the reach of his creditors. His loan with the Philippine National Bank, for which defendant had signed as accommodation co-maker, had matured on July 17, 1956 and remained unpaid when he made the assignment. Gonzales knew that the Bank would demand payment from defendant as such accommodation co-maker. He should have taken the necessary steps to compensate such payment with the rental due from defendant by so informing the assignee. Had he clearly given such information to the assignee as well as the fact that his lease agreement with the defendant included the crop year 1957-58, plaintiff would have no basis or reason to bring the instant suit against defendant. But he did not, and plaintiff should not be penalized thereby." [11]

The petitioner had done Felix Gonzales a favor by co-signing with him the promissory note in favor of the Philippine National Bank. The petitioner was prejudiced by the failure of Felix Gonzales to pay the amount of P5,000.00. Indeed, the amount of P5,805.95 was deducted from the proceeds of the loan granted by the Philippines National Bank to the petitioner. The act of Felix Gonzales in assigning to Edith Perez de Tagle-Marcelo his right to redeem the land mortgaged to the Rehabilitation Finance Corporation constituted a wanton disregard of the rights of the petitioner. Under the circumstances, Felix Gonzales should be made to pay to the petitioner moral and exemplary damages in the amount of P10,000.00 and the amount of P5,000.00 as attorney's fees.

WHEREFORE, the decision of the Court of Appeals as modified by the resolution promulgated on January 26, 1965 is hereby modified and judgment is rendered ordering the private respondent, Felix Gonzales, to pay the petitioner the amount of P10,000.00 as moral and exemplary damages and the sum of P5,000.00 as attorney's fees, with costs against the said private respondent.

SO ORDERED.

Teehankee, (Chairman), Makasiar, Muñoz Palma, and Guerrero, JJ., concur.

[1] Annex "A" and Annex "B" to petition, Rollo, pp. 17-30. Justice Salvador V. Esguerra wrote the decision and resolution and concurred in by Justice Conrado V. Sanchez and Justice Juan P. Enriquez.

[2] Rollo, p. 25.

[3] Rollo, p. 30.

[4] Record on Appeal, pp. 2-5, Rollo, p. 34.

[5] Ibid., pp. 7-29, Rollo, p. 34.

[6] Record on Appeal, pp. 19-28, Rollo, p. 34.

[7] Ibid., pp. 29-39, Rollo, p. 34.

[8] Ibid., p. 65, Rollo, p. 34.

[9] Brief for the Petitioner, pp. 1-2.

[10] Annex "A" to petition, Rollo, pp. 17-20.

[11] Rollo, pp. 24-25.

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