

**SPOUSES ELENO AND TERESITA GAGNAO, PLAINTIFFS-APPELLEES,
VS. RURAL BANK OF POLOMOLOK, INC., DEFENDANT-APPELLANT,**

Read online (full-text search, related cases, audio case brief): <https://batas.org/library/b8f5a69573e7/>

SINGH, J.:[*]

This is an appeal under Rule 41 of the Rules of Court filed by defendant-appellant assailing the Decision dated December 28, 2010[1] of the Regional Trial Court of Polomolok, South Cotabato, 11[th] Judicial Regional, Branch 39 (RTC), in Civil Case No. 117.

The Facts

Plaintiffs-Appellees Spouses Eleno and Teresita Gagnao (Sps. Gagnao) are the owners of three (3) parcels of agricultural land covered by Transfer Certificates of Title (TCT) Nos. T-15841 (Lot No. 318),[2] No. T-33316 (Lot No. 3229),[3] and Original Certificate of Title No. (P-32372) P12667[4] (Lot No. 372, by virtue of an Absolute Deed of Sale[5]), all located in Brgy. Cebuano, Tupi, South Cotabato.

The three (3) agricultural lands were cultivated under the Farm Management Contract (FMC) with defendant DOLE Philippines, Inc. (DOLE). Despite the FMC, Sps. Gagnao were allowed by DOLE to mortgage the said agricultural lands as long the they were informed of such loan and the terms of the FMC were observed.[6]

On March 18, 1985, Sps. Gagnao mortgaged to defendant-appellant Rural Bank of Polomolok, Inc. (Bank of Polomolok) two of the agricultural lands (TCT Nos. T-15841 and T-33316) as security for the John Deere Farm Tractor unit they bought in the amount of P250,000.00.[7]

On May 4, 1991, the FMCs[8] were renewed with expiry dates of 2000, 2009 and 2010, respectively. With these renewals, Sps. Gagnao received partial consideration or rents.

Later on, when Sps. Gagnao's demands for the payment of the amounts further due them under the renewed FMCs were not heeded by DOLE, they discovered that the Manager of the Bank of Polomolok asked DOLE to halt all payment of rentals to them[9] because the mortgage on their properties were foreclosed on April 30, 1990 with the Bank of Polomolok emerging as the highest bidder for the total amount of P677,070.37. The Certificate of Sale was annotated on the Sps. Gagnao's titles on October 11, 1990.[10]

On March 1, 1995, Sps. Gagnao filed a Complaint for Declaration of Nullity of Extra-judicial Foreclosure, Certificate of Sale and Real Estate Mortgage, Recovery of Ownership and Possession and Damages with Prayer for Writ of Preliminary Injunction[11] against DOLE and the Bank of Polomolok before the RTC.

In their complaint, Sps. Gagnao claimed:

“3. That on March 24, 1985, the defendant Rural Bank of Polomolok, Inc., through its owner/manager Engr. Jose R. Lansang, sold on credit a certain John Deere Farm tractor for the sum of P250,000.00 unto and in favor of Plaintiff Eleno Gagnao, who upon insinuations of the former, deposited without the consent of ... Teresita Gagnao, their Transfer Certificate of Title No. T-15841 . . . and Transfer Certificate of Title No. T-33316 ... to secure the credit by way of Real Estate Mortgage which he did accomplished (sic) subject to his wife's approval/consent;

x x x

5. That due to the inherent defects and malfunctions of major parts of the John Deere Farm Tractor from the time it was delivered to ... Eleno Gagnao, the later offered to return the same to ... Rural Bank of Polomolok, Inc., but its owner/manager Engr. Jose R. Lansang was again able to convince ... Eleno Gagnao to keep subject tractor on the representations that he will never resort to foreclosure of the collaterals and is willing to accept payment on a "pay when able" scheme provided that the latter execute a Special Power of Attorney in his favor to collect whatever income the encumbered two (2) parcels of land will have with ... DOLE Philippines, Inc., which ... Eleno Gagnao did on October 13, 1988;

x x x

8-A. That ... Rural Bank of Polomolok, Inc., surreptitiously registered the Real Estate Mortgage dated March 24, 1985 with the falsified signature of the Plaintiff Teresita Gagnao;

8-A-1. That the registration ... of the Real Estate Mortgage ... with the falsified signature of Plaintiff Teresita Gagnao was done surreptitiously to circumvent and encompass the aforesaid representations of the owner/manager of the defendant Polomolok Rural Bank, Inc., (sic) that he would not resort to foreclosures and his commitment to "pay when able" terms in favor of the Plaintiff Eleno Gagnao, moreover, knowing fully well that it was unsigned at the time by the Plaintiff Teresita Sanz Gagnao;

x x x

8-B-1. That the Certificate of Sale ... is null and void ab initio and can cause no effect at all for the reason that ... the Notice of Extra-Judicial Foreclosure dated March 2, 1990 was never sent to nor received by him and for a fact, not published nor posted ... [and] was prepared and executed by the Provincial Sheriff who had no jurisdiction over the real properties subject of the foreclosure...;

8-B-2. That ... the "Sheriff's Notice of Public Auction Sale" dated March 2, 1990, was never published as required by law... which posting even if indeed [it] were done would still be contrary to the requirements of the law, because it was all done in General Santos City, sanz (sic) publication in any newspaper, while the two (2) parcels of land subject of the foreclosure are all (sic) located in Brgy. Cebuano, Tupi, South Cotabato...;"[12] (emphasis supplied)

Sps. Gagnao added that assuming arguendo that the Real Estate Mortgage was valid, the same had already been released and cancelled by the payment of DOLE of the rentals due to them in the amount of P664,219.30,[13] to the Bank of Polomolok as contained in a Compromise Agreement they entered into and as approved by the Municipal Trial Court of Tupi in Civil Case No. 331.[14]

The Bank of Polomolok denied the accusations against it in its Answer[15] and claimed, as found by the RTC, that:

"Plaintiffs had an existing loan with defendant Bank amounting to P250,000.00 which they incurred after buying a tractor unit from the latter. The tractor unit was in perfect operating condition. To cover the balance payment (sic) of the unit, they encumbered their property, i.e., Lot 372. Defendant Bank has no way of knowing whether plaintiff Eleno Gagnao's wife did not consent [to] the mortgage as it was plaintiff Eleno Gagnao who submitted the already notarized mortgage document to it. In 1981, plaintiffs again secured additional loan of P15,000.00 from defendant Bank, years thereafter or in 1985 they again secured another P250,000.00 loan from it and put up their titles (Lots 318 and 3229) as collateral therefor. Defendant Bank stresses it is not its business practice to allow clients to "pay as you can" basis neither [to] agree not to foreclose mortgages in its favor."[16] (emphasis supplied)

For its part, DOLE alleged,[17] as upheld by the RTC, that:

A. xxx it was plaintiff who defrauded defendant DOLEFIL by signing on May 4, 1991 renewal agreements on existing FMC with DOLEFIL covering Lot Nos. 372, 318 and 3229 extending the terms of the FMC xxx and receiving from defendant DOLEFIL the aggregate amount of P280,266.50 representing the three (3) years advance rental xxx.

B. [Plaintiffs] signed the FMC renewal xxx even as they are aware that Lot No. 318 had earlier been foreclosed by the Rural Bank of Polomolok while Lot Nos. 372 and 3229 had already been sold at public auction xxx

C. xxx even as plaintiff Eleno Gagnao executed a Special Power of Attorney in favor of the Rural Bank xxx the same cannot be possibly implemented by DOLEFIL due the fact that plaintiffs already continuously drawn from DOLEFIL series of advances xxx. x x x G. xxx even as plaintiffs are aware that the redemption period would expire on October 11, 1991, plaintiffs signed with defendant DOLEFIL a renewal of the FMC pocketing P280,266.50 advance rental leaving defendants Bank and DOLEFIL to contest between themselves as to who has the better right of possession over the foreclosed properties. x x x I. DOLEFIL was constrained to file xxx for Forcible Entry with Damages against the Bank.

J. DOLEFIL and the Bank finally came to a compromise which was adopted as a decision dated 7 October 1993 xxx.”[18] (emphasis supplied)

On September 13, 1996, DOLE filed a Motion for Leave to File Supplemental Answer[19] with attached Supplemental Answer with Counterclaim and Cross-Claim[20] alleging that what were foreclosed were only TCT Nos. T-15841 (Lot No. 318) and No. T-33316 (Lot No. 3229). OCT No. (P-32372) P12667 (Lot No. 372) was never foreclosed as it was not subject or part of the Real Estate Mortgage. As such, DOLE sought the reimbursement of the amount of P446,919.41 from the P664,219.30 (by virtue of the Compromise Agreement) it paid to the Bank of Polomolok as rentals for the three (3) agricultural lands.

On November 18, 1996, Sps. Gagnao filed an Urgent Motion for Summary Judgment,[21] alleging that since the parcel of land covered by OCT No. (P-32372) P12667 (Lot No. 372) was never mortgaged it could therefore never be foreclosed. In addition, a Cancellation and Discharge of Mortgage[22] was caused by the Rural Bank to be annotated on the title, so there should be no more question as to the validity of the alleged Real Estate Mortgage over it. Sps. Gagnao ultimately prayed for the release of the owner's duplicate copy of OCT No. (P-32372) P12667, delivery of the possession of the said land, and for the Bank of Polomolok to be ordered to refund the corresponding rental payments made by DOLE for the said Lot No. 372.

In an Order dated February 26, 1997,[23] the RTC granted Sps. Gagnao's Urgent Motion for Summary Judgment. The dispositive portion reads:

“WHEREFORE, judgment is hereby rendered adjudicating ownership in favor of the plaintiff[s] over Lot No. 372, Pls-246-D and ordering defendant Rural Bank of Polomolok, Inc. to release the owner's duplicate copy of OCT No. (P-32372) P-12667 to the plaintiff.” (emphasis supplied)

The aforesaid order became final and executory prompting the RTC to issue the June 11, 1997 Order directing the Bank of Polomolok to deliver the corresponding amount of rentals it received from DOLE for the land covered by OCT No. (P-32372) P12667 to the RTC.[24] In compliance thereto, the Bank of Polomolok deposited P200,000.00 with the trial court,[25] and the balance of P69,701.27[26] was later deposited on May 17, 1999. These deposits and subsequent rental deposits corresponding to OCT No. (P-32372) P12667 by DOLE with the RTC were later on withdrawn and given to the Sps. Gagnao upon motion.

In a twist of events, a Motion for Leave to Intervene was filed on November 25, 1997[27] by one Elenita Landicho, the registered owner of OCT No. (P-32372) P12667, claiming that the purported Deed of Absolute Sale in favor of Sps. Gagnao is simulated and she prayed that as the rightful owner, all rentals corresponding to the

said land should be given to her. The RTC initially granted her intervention in an Order dated March 3, 1998,[28] but the same was withdrawn in its April 20, 1999 Order.[29]

In a Manifestation filed on May 27, 1999,[30] the Bank of Polomolok manifested its inability to comply with the RTC directive to surrender the owner's duplicate copy of OCT No. (P-32372) P12667 considering that it was allegedly encumbered to it by Elenita Landicho on December 23, 1996 in the amount of ₱1,200,000.00 and duly registered on February 7, 1997.[31]

With such non-compliance, the RTC, upon motion of Sps. Gagnao,[32] issued an Order dated January 29, 2001[33] canceling said title and the encumbrances inscribed thereon and directing the Register of Deeds to issue another owner's duplicate to the Sps. Gagnao.

On April 17, 2006, the RTC issued a Resolution[34] denying, among others, the admission of the belatedly filed Formal Offer of Exhibits of Sps. Gagnao.[35]

In a Notice of Lis Pendens[36] furnished by Sps. Gagnao to the RTC, they stated that TCT No. T-15841 registered under the name of Eleno Gagnao has been cancelled and TCT No. T-63348 was issued under the name of the Bank of Polomolok until it was subdivided into TCT Nos. T-83953,[37] TCT No. T-83954,[38] TCT No. T-83955,[39] and T-83956.[40] As to TCT No. T-33316, the same has been cancelled in favor of the Bank of Polomolok and a new title, TCT No. T-63347 in the name of the latter was likewise subdivided into TCT Nos. T-83950,[41] T-83951,[42] and T-83952.[43]

In an Order dated February 10, 2010,[44] the RTC directed Sps. Gagnao to submit their memorandum[45] after the Bank of Polomolok manifested that it will “forego the submission of the exhibits since the exhibits are almost the same” with the Sps. Gagnao.

In order to expedite the resolution of the case, the RTC, upon manifestation of Sps. Gagnao[46] and motion of DOLE,[47] issued an Order dated November 30, 2010,[48] granting the waiver of both parties' counterclaims against each other.

The RTC Ruling

After a protracted trial, the RTC issued on December 28, 2010, a Decision[49] declaring, among others, the Real Estate Mortgage void and the consequent foreclosure sale void as the General Santos City court which conducted the auction had no jurisdiction over the properties of Sps. Gagnao located in the Municipality of Tupi, South Cotabato. The dispositive portion of the Decision reads:

“IN LIGHT OF THE FOREGOING, the Court hereby GIVES DUE COURSE [to] plaintiffs' complaint and ORDERS the following:

- i) The Real Estate Mortgage dated 24 March 1985 and registered on December 1989 as Entries No. 183708 in the Memorandum of Encumbrances on both TCT No. 15841 and TCT NO. 33316 is DECLARED FICTITIOUS thus void ab initio;
- ii) The Certificate of Sale dated 14 May 1990 and registered on 11 October [1] 1990 as entries No. 193383 in the Memorandum of Encumbrances on both TCT No. T-15841 and TCT No. 33316 is DECLARED FICTITIOUS thus void ab initio;
- iii) The Notice of Extra-Judicial Foreclosure dated 2 Mar[ch] 1990 addressed unto plaintiff Eleno Gagnao for the foreclosure of Lot No. 318, Pls-246-D covered by TCT No. T-15841 and Lot No. 3229, Gss-238-D covered by TCT No. T-33316 issued by the Provincial Sheriff for the RTC, Branch XXII in General Santos City is DECLARED FICTITIOUS thus void ab initio;

iv) The Sheriff's Notice of Public Auction Sale dated 2 March 1990 of Lot No. 318, Pls-246-D covered by TCT NO. T-15841 and Lot No. 3229, Gss-238-D covered by TCT No. T-33316 issued likewise by the Provincial Sheriff for the RTC, Branch XXII in General Santos City, is DECLARED FICTITIOUS thus void ab initio;

v) The payment made by defendant Dole Philippines, Inc. in the sum of P664,219.30, to defendant Rural Bank of Polomolok, Inc., be considered as full payment or settlement of any and all liabilities of the plaintiffs to the latter, without prejudice to deductions and accounting of previous payments already made by the plaintiffs, and RELEASING Lot No. 318, Pls-246-D covered by TCT No. T-15841 and Lot No. 3229, Gss-238-D covered by TCT NO. T-33316 from any and all encumbrance pertinent to defendant Rural Bank of Polomolok, Inc.;

vi) All the deposited lease rentals on the subject properties by defendant Dole Philippines, Inc., with the Court are hereby ORDERED RELEASED IMMEDIATELY to the plaintiffs; further, defendant Dole is also DIRECTED to PROMPTLY DEPOSIT those accruing lease rentals due on the aforesaid properties to the Court so the same can be released to plaintiffs; and

vii) Defendant Rural Bank of Polomolok, Inc., is held LIABLE to PAY plaintiffs:

- a) P100,000.00 as moral damages;
- b) P100,000.00 as exemplary damages;
- c) P100,000.00 as attorney's fees and to PAY the COST.

SO ORDERED.”[50] (emphasis supplied)

On January 2, 2011, Sps. Gagnao filed a motion for the issuance a writ of execution of the foregoing Decision.[51] The Bank of Polomolok opposed said motion and moved for the reconsideration of the Decision on account of the absence of evidence on the allegation of forgery of Elenita Gagnao's signature in the Real Estate Mortgages or her non-participation in the execution thereof.[52]

In an Omnibus Order dated January 31, 2011,[53] the RTC:

- a. denied the motion for reconsideration of the Bank of Polomolok ruling that the Bank of Polomolok was deemed to have admitted the allegations of forgery and non-participation of Teresita Gagnao in the mortgages when it failed to specifically deny the same in its Answer;
- b. clarified that the amount of P269,579.30[54] (deposited to the RTC and withdrawn by Sps. Gagnao) should be deducted from the P664,219.30 which the Bank of Polomolok received from DOLE as part of the Compromise Agreement. Despite the reduction to P394,640.00, the said amount is more than sufficient to pay the principal obligation in the amount of P250,000.00; and
- c. granted the issuance of a writ of execution pending appeal with regard to the release of rentals on the properties deposited with the RTC in favor of Sps. Gagnao due to their old age and to defray their hospital expenses.

By virtue of the Writ of Partial Execution Pending Appeal dated February 1, 2011,[55] Teresita Gagnao received the amount of P486,333.64 representing all the rental deposits of DOLE consigned to the RTC.[56]

The Bank of Polomolok then filed a Notice of Appeal on March 23, 2011[57] which was given due course by the RTC in an Order dated April 29, 2011.[58] The Issues

In its Appellant's Brief,[59] the Bank of Polomolok raised the following issues:

“1.

That the trial court seriously erred in decreeing that[:]

v) The payment made by defendant Dole Philippines, Inc. in the sum of P664,219.30, to defendant Rural Bank of Polomolok, Inc., be considered as full payment or settlement of any and all liabilities of the plaintiffs to the latter, without prejudice to deductions and accounting of previous payments already made by the plaintiffs, and RELEASING Lot No. 318, Pls-246-D covered by TCT No. T-15841 and Lot No. 3229, Gss-238-D covered by TCT NO. T-33316 from any and all encumbrance pertinent to defendant Rural Bank of Polomolok, Inc.;"

2.

That the trial court seriously erred in holding that [:]

"i) The Real Estate Mortgage dated 24 March 1985 and registered on December 1989 as Entries No. 183708 in the Memorandum of Encumbrances on both TCT No. 15841 and TCT NO. 33316 is DECLARED FICTITIOUS thus void ab initio;"

3.

That the trial court seriously erred in granting plaintiffs-appellees' prayers despite the insufficiency of evidence owing to the absence of any documentary evidence to support their claims[; and]

4.

That the trial court seriously erred in awarding damages, which were excessive at that, to plaintiffs-appellees."[60] (emphasis supplied)

The Ruling of the Court

Forgery not duly proven.

In finding that the Real Estate Mortgage was null and void, the RTC ruled that the Bank of Polomolok was deemed to have admitted the allegations of (a) non-participation by Teresita Gagnao in the execution of the mortgage and (b) forgery, both found in the Complaint when it failed to specifically deny the same in its Answer, in accordance with Section 11, Rule 8 of the Rules of Court, to wit:

"Section 11. Allegations not specifically denied deemed admitted. — Material averment in the complaint, other than those as to the amount of unliquidated damages, shall be deemed admitted when not specifically denied. Allegations of usury in a complaint to recover usurious interest are deemed admitted if not denied under oath."

A specific denial is made by specifying each material allegation of fact, the truth of which the defendant does not admit and, whenever practicable, setting forth the substance of the matters upon which he relies to support his denial. The purpose of requiring the defendant to make a specific denial is to make him disclose the matters alleged in the complaint which he succinctly intends to disprove at the trial, together with the matter which he relied upon to support the denial.[61]

A perusal of the Answer[62] of the Bank of Polomolok, however, proves the contrary. It did specifically deny the allegations of forgery and non-participation of Teresita Gagnao in the execution of the mortgage, to wit:

“2. .. (d) [defendant] has no way of knowing whether plaintiff's wife did not consent to the mortgage agreement using Lot No. 372 as it was plaintiff Eleno Gagnao who submitted the duly notarized mortgage document.

xxx

6. Defendant denies the facts and legal conclusion alleged in paragraph 8-B-1 and 8-B-2 of the complaint for the truth of the matter are[;]

xxx

(b) defendant is not a privy to the claimed falsification of the signature of plaintiff Teresita Gagnao.”[63] (emphasis supplied)

Even assuming for the sake of argument that the Bank of Polomolok failed to specifically deny the allegations of forgery, the same “cannot be presumed and must be proved by clear, positive and convincing evidence and the burden of proof lies on the party alleging forgery. The best evidence of a forged signature in the instrument is the instrument itself reflecting the alleged forged signature. The fact of forgery can only be established by comparison between the alleged forged signature and the authentic and genuine signature of the person whose signature is theorized upon to have been forged.”[64]

In the present case, no documentary evidence was presented showing that the signature of Teresita Gagnao was forged. Noteworthy is the fact that the alleged NBI report, though identified by Teresita Gagnao and marked as Exhibits “Q” to “Q-1” and “R” to “R-1,”[65] is not found in the records and neither was it submitted in the formal offer. Worst, all the documentary evidence of Sps. Gagnao were not admitted by the trial court when they belatedly filed the Formal Offer of Exhibits.[66]

As to testimonial evidence, Teresita Gagnao made bare denials of the existence of the mortgage and merely testified that it was impossible for her to have signed the mortgage document since she was in Iloilo then, viz:

“12. Q.-

Do you remember signing any document about the land of that mortgage over these parcels of land?

A.-

No. I have not signed any.

13. Q.-

Why, where were you [on] March 24, 1985, were you also in Tupi?A.- I am living in General Santos City and during that time I was in Iloilo.

14. Q.-

Are you living together with your husband at that time?

A.-

No sir.

COURT:

15. Q.-

Why?

A.-

Because he is living in Tupi and I have a house in Gen. Santos City and I would often travel to Iloilo.”[67]

With the absence of preponderant and admissible documentary and testimonial evidence to show that the signatures of Teresita Gagnao were falsified, the “presumption of validity and regularity prevails over allegations of forgery and fraud.”[68] A “notarized document carries the evidentiary weight conferred upon it with respect to its due execution, and documents acknowledged before a notary public have in their favor the presumption of regularity which may only be rebutted by clear and convincing evidence.”[69]

With the foregoing, the Real Estate Mortgage over TCT Nos. T-15841 and T-33316 are declared duly executed between the parties as no competent evidence was presented showing irregularity.

The loan has been fully paid;
thus, the mortgage should be
cancelled.

The Bank of Polomolok alleged that it was erroneous for the RTC to have ruled that the loan has been fully paid by virtue of the amount of P664,219.30 it received from DOLE on September 27, 1993, representing the rentals for the three agricultural lands, since part of it has been given to Sps. Gagnao and the remaining balance is insufficient to satisfy the principal with interest and penalties incurred.

Contrary to the claims of the Bank of Polomolok, the RTC, in its Omnibus Order dated January 31, 2011,[70] has clarified that the amount of P269,579.30[71] (deposited to the RTC and withdrawn by Sps. Gagnao) should be deducted from the P664,219.30 which the Bank of Polomolok received from DOLE as part of the Compromise Agreement. Notwithstanding the reduction to P394,640.00, the said amount is more than sufficient to pay the principal obligation in the amount of P250,000.00.

The RTC, however, made a minor miscalculation of the amount to be deducted from P664,219.30. The amount to be deducted should be P269,701.27 (P200,000.00[72] plus P69,701.27[73]). Thus, the remaining amount with the Bank of Polomolok will be P394,518.03.

The Bank of Polomolok further argued that the remaining amount of P394,518.03 is inadequate to satisfy the outstanding amount of P859,551.83 as of December 28, 2010, the day the RTC Decision was rendered.[74] The foregoing argument of the Bank of Polomolok is unmeritorious.

The claim of the Bank of Polomolok that the outstanding obligation of Sps. Gagnao has ballooned to P859,551.83 as of December 28, 2010 based on the terms of the loan, is bereft of any support by way of computation, as well as legal basis. Even if this Court were to take this computation at face value, said outstanding obligation in the amount of P859,551.83 has been fully paid considering the remaining amount of P394,518.03 plus 12% per

annum legal interest (from 1993 to 2010) equals P1,199,334.81. Thus, Sps. Gagnao may be deemed to have even overpaid the Bank of Polomolok in the amount of P339,782.98. Said overpayment shall be subject to a “legal interest of 12% per annum until June 30, 2013. Starting July 1, 2013, the prevailing rate of interest shall be 6% per annum until full satisfaction pursuant to Nacar v. Gallery Frames and Bangko Sentral ng Pilipinas -Monetary Board Circular No. 799.”[75]

The new TCTs under the name of the Bank of Polomolok should be cancelled in favor of Sps. Gagnao.

As the loan obligation has been duly and fully paid, the corresponding mortgage on the subject properties are deemed cancelled. In addition, since the Bank of Polomolok “concede to the nullity of the foreclosure proceedings due to the erroneous venue,”[76] it is incumbent that the TCTs that cancelled TCT No. T-15841 and TCT No. T-33316 (under the name of Eleno Gagnao), and other titles subsequent thereto, should be cancelled as they are all null and void.

Damages.

Moral damages may be awarded in case the claimant experienced physical suffering, mental anguish, fright, serious anxiety, besmirched reputation, wounded feelings, moral shock, social humiliation, and similar injury. As for exemplary damages, they are awarded in addition to moral damages by way of example or correction for the public good. Specifically, in contracts, exemplary damages may be awarded if the defendant acted in a wanton, fraudulent, reckless, oppressive, or malevolent manner.[77]

The RTC found that the “[Sps. Gagnao's] tribulation and travails on the devious machination done on them by defendant Bank [of Polomolok] are amply shown during trial.”[78] In addition, the RTC found that the foreclosure proceeding was fictitious as no records of the auction were found[79] and even if they existed, the foreclosure was conducted at a wrong venue. As the mental anguish of the Sps. Gagnao and the fraudulent and oppressive acts of the Bank of Polomolok spanned more than 15 years, the award of P100,000.00 moral damages and P100,000.00 as exemplary damages by the RTC are more than warranted under the circumstances.

Attorney's fees.

Although it is a sound policy not to set a premium on the right to litigate,[80] this Court considers the grant to Sps. Gagnao of P100,000.00 as attorney's fees justified, taking into consideration the number of lawyers they had for the more than 15 years of protracted litigation. Their entitlement to attorney's fees and expenses of litigation was by virtue of their having been compelled to litigate or to incur expenses to protect their interests[81] due to acts of the Bank of Polomolok.

Costs of suit.

The Rules of Court provide that, generally, costs shall be allowed to the prevailing party as a matter of course,[82] thus:

“Section 1. Costs ordinarily follow results of suit.- Unless otherwise provided in these rules, costs shall be allowed to the prevailing party as a matter of course, but the court shall have power, for special reasons, to adjudge that either party shall pay the costs of an action, or that the same be divided, as may be equitable. No costs shall be allowed against the Republic of the Philippines, unless otherwise provided by law.”

In the present case, the award of costs of suit to be charged against the Bank of Polomolok is also in order.

Interests on the amounts awarded.

Interest by way of damages has been defined as interest allowed in actions for breach of contract or tort for the unlawful detention of money already due. This type of interest is frequently called “moratory interest.” Interest as a part of damage, is allowed, not by application of arbitrary rules, but as a result of the justice of the individual case and as compensation to the injured party. The legal provision on interests in quasi-delicts is Article 2211 of the Civil Code which provides that in crimes and quasi-delicts, interest as part of the damage, may, in a proper case, be adjudicated in the discretion of the court.[83]

With the issuance of Bangko Sentral ng Pilipinas Circular No. 799 on June 21, 2013, which revised the interest rate for loan or forbearance from 12% to 6% in the absence of stipulation, and the guidelines outlined in the case of *Nacar v. Gallery Frames*,[84] this Court finds Sps. Gagnao entitled to an interest of 6% per annum on the total damages awarded.

“2. When an obligation, not constituting a loan or forbearance of money, is breached, an interest on the amount of damages awarded may be imposed at the discretion of the court at the rate of 6% per annum. No interest, however, shall be adjudged on unliquidated claims or damages, except when or until the demand can be established with reasonable certainty. Accordingly, where the demand is established with reasonable certainty, the interest shall begin to run from the time the claim is made judicially or extrajudicially (Art. 1169, Civil Code), but when such certainty cannot be so reasonably established at the time the demand is made, the interest shall begin to run only from the date the judgment of the court is made (at which time the quantification of damages may be deemed to have been reasonably ascertained). The actual base for the computation of legal interest shall, in any case, be on the amount finally adjudged.” (emphasis supplied)

WHEREFORE, the Court AFFIRMS WITH MODIFICATION the Decision dated December 28, 2010 of the Regional Trial Court of Polomolok, South Cotabato, 11th Judicial Regional, Branch 39, in Civil Case No. 117, wherein:

- The Real Estate Mortgage dated March 24, 1985, registered on December 14, 1989 with Entry No. 183708 on both Transfer Certificates of Title Nos. T-15841 and T-33316 (registered under the name of Eleno Gagnao married to Teresita Gagnao) has been fully paid and are therefore declared cancelled;
- The Certificate of Sale dated May 14, 1990, registered on May 14, 1990 with Entry No. 193383 on both Transfer Certificates of Title Nos. T-15841 and T-33316, which has been declared null and void, is likewise cancelled;
- Transfer Certificates of Title Nos. T-63348, T-83953, T-83954, T-83955, T-83956, T-63347, T-83950, T-83951, and T-83952 (all registered to Rural Bank of Polomolok, Inc.), and other subsequent titles, if any, which cancelled Transfer Certificates of Title Nos. T-15841 and T-33316 (registered under the name of Eleno Gagnao married to Teresita Gagnao), are cancelled as they are null and void;
- 4. The Register of Deeds for the Province of South Cotabato is directed to cancel the aforesaid void titles, as well as the encumbrances annotated thereon, and to issue new Transfer Certificates of Title to Spouses Eleno and Teresita Gagnao for the covered properties;
- The Bank of Polomolok, Inc. is ordered to pay and return the overpayment of Spouses Eleno and Teresita Gagnao in the amount of P339,782.98 with legal interest at the rate 12% per annum until June 30, 2013, and starting July 1, 2013, 6% per annum until full satisfaction; and
- The Bank of Polomolok, Inc. is held liable to pay Spouses Eleno and Teresita Gagnao:

- P100,000.00, as moral damages;
- P100,000.00, exemplary damages;
- P100,000.00, as attorney's fees;
- Interest of 6% per annum on the total amount of items (a) to (c) hereof, from the date of the judgment until fully paid; and
- Cost of suit.

SO ORDERED.

Borja, J., Chairperson, and Badelles, JJ., concur.

[*] This case was assigned to this Ponente on April 1, 2014 but she assumed her position only on June 2, 2014.

[1] Records, pp. 585-593.

[2] Records, pp. 11-12.

[3] Records, pp. 13-14.

[4] Records, pp. 15-16.

[5] Records, pp. 17-18.

[6] Records, p. 19.

[7] Records, p. 28.

[8] Records, pp. 34-51.

[9] Records, pp. 52-53.

[10] Records, pp. 12 and 14.

[11] Records, pp. 1-9.

[12] Rollo, pp. 2-5.

[13] Records, pp. 26-27.

[14] Records, pp. 24-25.

[15] Records, pp. 95-B to 98.

[16] Rollo, pp. 140-141.

[17] Answer, Records, pp. 88-94.

[18] Rollo, p. 141.

[19] Records, pp. 171 to 171-A.

[20] Records, pp. 172-182.

[21] Records, pp. 199-202.

- [22] Records, pp. 205-206.
- [23] Records, p. 249-250.
- [24] Records, p. 298.
- [25] Records, p. 344.
- [26] Records, p. 357.
- [27] Records, pp. 372-374.
- [28] Records, pp. 401-404.
- [29] Records, p. 437.
- [30] Records, pp. 465-466.
- [31] Records, p. 469.
- [32] Records, pp. 500-502.
- [33] Records, pp. 540-541.
- [34] Records, pp. 661-664.
- [35] Records, pp. 615-620; 629-634.
- [36] Records, pp. 738-739.
- [37] Records, p.743
- [38] Records, p.744.
- [39] Records, p.745.
- [40] Records, p.746.
- [41] Records, p. 740
- [42] Records, p. 741
- [43] Records, p.742.
- [44] Records, p. 757.
- [45] Records, pp. 758-763.
- [46] Records, p. 778.
- [47] Records, pp. 779-781.
- [48] Records, p. 782.
- [49] Supra, at Note 1.
- [50] Rollo, 146-147.
- [51] Records, pp. 792-793.
- [52] Records, pp. 795-801.

- [53] Records, pp. 810-815; Rollo, pp. 158-163.
- [54] Should be ?269,701.27.
- [55] Records, pp. 807-809.
- [56] Acknowledgment Receipt, Records, p. 817.
- [57] Records, pp. 832-833.
- [58] Records, pp. 841-842.
- [59] Rollo, pp. 20-59.
- [60] Rollo, pp. 42-43.
- [61] Cua v. Wallem Philippines Shipping, Inc., G.R. No. 171337, July 11, 2012.
- [62] Records, pp. 95-97.
- [63] Records, pp. 95-97.
- [64] Mendoza v. Fermin, G.R. No. 177235, July 7, 2014.
- [65] TSN, March 12, 1997, p. 18.
- [66] Id, at Note 35.
- [67] TSN, March 12, 1997, p. 8.
- [68] Garcia v. Sandiganbayan, G.R. No. 197204, March 26, 2014.
- [69] Rural Bank of Cabadbaran, Inc. v. Melecio-Yap, G.R. No. 178451, July 30, 2014.
- [70] Records, pp. 810-815.
- [71] Should be P269,701.27.
- [72] Records, p. 344.
- [73] Records, p. 357.
- [74] Rollo, p. 47.
- [75] Spouses Silos, v. Philippine National Bank, G.R. No. 181045, July 2, 2014.
- [76] Rollo, p. 48.
- [77] Olivarez Realty Corporation v. Castillo, G.R. No. 196251, July 9, 2014.
- [78] Records, p. 790.
- [79] Records, pp. 787-789.
- [80] Durban Apartments Corporation v. Pioneer Insurance and Surety Corporation, G.R. No. 179419, January 12, 2011.
- [81] Article 2208, par. 2, Civil Code.
- [82] Section 1, Rule 142 of the Rules of Court.

[83]Records, p. 429, 432. Exhibits “H” and “H-1” for Intervenor PFICI.

[84] G.R. No. 189871, August 13, 2013.

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.