

SPOUSES CALVIN LUTHER R. GENOTIVA & VIOLET S. GENOTIVA, PLAINTIFFS-APPELLEES, VS. SHERIFF REYNALDO L. CUYONG, DEFENDANT-APPELLEE, EQUITABLE-PCI BANK, REPRESENTED BY ITS VICE-PRE...

Ponente: FRANCISCO, J.

Read online (full-text search, related cases, audio case brief): <https://batas.org/library/d1dee6a8cd67/>

FRANCISCO, J.:

CA-G.R. CV No. 02724-MIN is an appeal under Rules 41 and 44 of the Rules of Court from the August 31, 2010 Decision[1] of the Regional Trial Court (RTC), 10[th] Judicial Region, Branch No. 21, Cagayan de Oro City, in Civil Case No. 2003-060 for Declaration of Nullity of Contract, Reconveyance and Damages with prayer for a Writ of Preliminary Injunction and/or Temporary Restraining Order.

CA-G.R. SP No. 04424-MIN is a Petition for [2] under Rule 65 of the Revised Rules of Court, with Prayer for the Issuance of a Temporary Restraining Order (TRO) and/or Writ of Preliminary Injunction (WPI), mainly seeking to nullify the Order dated May 17, 2011[3] of the RTC ordering the execution of its August 31, 2010 Decision pending appeal.

It appears that CA-G.R. SP No. 04424-MIN is an auxillary to the appeal separately filed by Spouses Calvin Luther Genotiva & Violet Genotiva, docketed CA-G.R. CV NO. 02724-MIN. Accordingly, this Court orders the consolidation of CA-G.R. SP No. 04424-MIN and CA-G.R. CV NO. 02724-MIN.

The Facts of the Case

The consolidated cases arose from the Complaint[4] filed on February 18, 2003 by plaintiffs Spouses Calvin Luther Genotiva & Violet Genotiva against defendant Equitable-PCI Bank before the RTC, 10th Judicial Region, Branch No. 21, Cagayan de Oro City, docketed as Civil Case No. 2003-060 for Declaration of Nullity of Contract, Reconveyance and Damages with prayer for a Writ of Preliminary Injunction and/or Temporary Restraining Order.

In the complaint, plaintiff Calvin Luther Genotiva alleged that as a businessman, he, together with his business colleagues, ventured into a profitable undertaking for the commercial production of hollow blocks and concrete pavers under the registered name Goldland Equity, Incorporated (hereafter, Goldland). Calvin's wife, plaintiff Violet Genotiva, was an employee of defendant bank at its Cagayan de Oro City Branch until she retired in October 1998.

According to the plaintiffs, in 1997, Goldland applied for a "clean loan" with defendant bank at its Cagayan de Oro City Branch and for which, it was granted the amount of P2,000,000. The said grant being a clean loan did not require any collateral. Calvin signed a Promissory Note dated November 12, 1996 evidencing the release of the said loan.

Plaintiffs also alleged that Violet Genotiva had earlier personally applied for a housing loan which the defendant bank granted to her as its employee. The collateral of the loan is the house itself but the Transfer Certificate of

Title (TCT) No. 77966 covering plaintiffs' land (on which the house is erected) is in the possession of the defendant bank.

Plaintiffs averred that on October 15, 1998 when Violet retired as employee of the bank, she requested for the payment of her retirement benefits. She also claimed for the release of the title of the land since she has fully paid her housing loan as shown by the annotation at the back of the title. However, the bank refused to release her retirement benefits unless she and her husband would execute a real estate mortgage of the house and lot covered by TCT No. 77966 to secure the obligation of Goldland. Being pressed for money to answer for their personal obligations at that time, they had no choice but to accede to sign a real estate mortgage in favor of the defendant bank for the said purpose.

To replace the real estate collateral and in order for the defendant bank to release the title of their property, plaintiffs offered to put up a cash equivalent to P500,000. This offer was made personally so that Goldland might, in the meantime, be directed by the defendant bank to put up collateral for the loan it has contracted. Plaintiffs pointed out though that this new change in the treatment of the loan of Goldland should be properly addressed to the said corporation and not to them who are only stockholders and whose personalities are separate and distinct from the said corporation. Plaintiffs claimed that their offer is an act of sacrifice and goodwill so that the title of their property will be released while giving means for Goldland to settle its obligation to the bank.

Goldland defaulted in its payment, thus, the defendant bank foreclosed the mortgaged property and scheduled the auction sale on February 24, 2003 as shown in the Notice of Extra Judicial Sale. Thus, this case.

Plaintiffs argued that the act of the defendant bank in withholding the release of TCT No. 77966 to secure the account of another entity is clearly unjust and oppressive since there is no vinculum that binds the plaintiffs with Goldland in relation to the loan granted by the bank to the latter which would warrant the retention of the title. Moreover, by reason of the duress and pressure brought about by defendant on plaintiff Violet through the withholding of her retirement benefits unless she and her husband would execute a real estate mortgage in favor of defendant bank to answer for the obligation which they are not bound to pay, plaintiffs suffered shock, anxiety and sleepless nights for which defendants should be ordered to pay solidarily the amount of P100,000 as moral damages. Also, to give the defendants an important lesson in human relations which they should invariably perform, defendants should be made to suffer the payment of P200,000 as exemplary damages. Plaintiffs added that they were constrained to hire the services of counsel to protect their interest for which they paid the amount P150,000 as acceptance fee and P5,000 for every court attendance. Furthermore, as plaintiffs are not bound by the loan of Goldland, the offer made by plaintiffs in the amount of P500,000, which has already been deposited for the said purpose, should be ordered released to the plaintiffs, including all interest thereon, because the bank has clearly disregarded the said offer and the bank has no right whatsoever to retain the said amount any further.[5]

On February 21, 2003, the RTC issued a TRO.[6]

After hearing for the issuance of WPI, the RTC, in its March 6, 2003 Order, denied the petition for its issuance and lifted the TRO. Plaintiffs' motion for reconsideration of the March 6, 2003 Order was likewise denied. A Petition for Certiorari was filed by plaintiffs before the Court of Appeals but the same was dismissed for lack of merit.[7]

Meantime, the defendant bank filed a motion to dismiss which the RTC denied.[8] Subsequently, defendants filed their Answer[9] denying the allegations of the plaintiffs and asserting that the truth of the matter was that on November 7, 1996, plaintiffs together with the other stockholders of Goldland executed a Notarized Suretyship Agreement in favor of defendant bank. Under the agreement, plaintiffs and the other stockholders of Goldland agreed to bind themselves "solidarily with Goldland Equity, Inc. xxx respecting its obligation to Philippine

Commercial International Bank xxx, the principal amount of which has not yet been computed or fixed at ANY AND/OR ALL AMOUNTS AS MAY BE AWAILED OF.”[10] As a consequence of the execution of the suretyship agreement, the defendant bank granted Goldland a loan accommodation of P2,000,000, as evidenced by the Promissory Note dated November 12, 1996. Thereafter, Goldland, plaintiffs, and the other solidary debtors defaulted in the payments of their obligation. Several attempts at restructuring the loan were undertaken but still the obligation was consistently past due for several months. As of December 1998 and up to the present, Goldland, plaintiffs, and the other solidary debtors remained to be indebted under the said Promissory Note and Deed of Suretyship.

Defendant bank further allege that sometime in September or October, 1998, plaintiff Violet decided to avail of defendant's special early retirement program extended to employees in the service for more than ten years but she could not be issued her clearance which was a precondition for the release of her retirement benefits because of the past due loan account of Goldland for which she was also solidarily liable. Notwithstanding, plaintiff Violet, joined by her husband plaintiff Calvin, demanded for the release and payment of the retirement benefits. Defendant could only remind them of their solidary liability for Goldland's loan obligation under the suretyship agreement and its valid and just demand that it be paid first before issuance of plaintiff Violet's clearance and release of her benefits. Because of plaintiffs' appeals and offer to secure the outstanding loan amount with a mortgage over their property, defendant relented in its demand and accepted plaintiffs' offer to furnish it with a collateral for the loan and agreed to pay plaintiff Violet's special retirement package in consideration thereof, even without the existing loan of Goldland being settled first. Thus, as plaintiffs themselves suggested and offered, they executed a Real Estate Mortgage over the property covered by TCT No. T-77966 in favor of defendant bank. Moreover, plaintiffs also signed a Release, Waiver and Quitclaim, renouncing any or all causes of action, if any, arising from the transactions and occurrences that culminated in plaintiffs' execution of the subject Real Estate Mortgage. In accordance with this compromise formula forged by plaintiffs with defendant, plaintiff Violet's retirement package was paid on December 23, 1998.

Defendant added that four years had lapsed and the loan remained unpaid. It had no other recourse but to exercise its rights as creditor, one of which is to foreclose the mortgage executed by plaintiffs. Just as when the mortgaged property was about to be auctioned, plaintiffs filed this case on February 18, 2003 to buy more time and indefinitely delay the public auction of their mortgaged property.

As for plaintiffs' offer of P500,000, defendant posited that the same may well constitute their admission of the existence and validity of the principal obligation and the mortgage they subsequently executed as accessory thereto. Thus, the defendant bank applied the said amount to Goldland's past due interest.[11]

By way of Counterclaim, defendant asked for P100,000.00 moral damages, P50,000.00 exemplary damages, attorney's fees, and actual expenses of P20,000.00.[12]

After trial, on August 31, 2010, the RTC rendered a Decision[13] the fallo of which reads-

WHEREFORE, there being preponderance of evidence in favor of Plaintiffs, the Real Estate Mortgage is hereby declared NULL and VOID. The foreclosure of the aforementioned property subject of the mortgage contract is likewise ordered ANNULLED. The defendant is directed to reconvey the property of plaintiff covered by TCT No. 77966 and to restore the title to the plaintiff. Likewise, the defendant bank is directed to return to plaintiff Calvin Genotiva the amount of P500,000.00 unduly sequestered by defendant, with legal interest effective the filing of this action until fully paid. Further the defendant is directed to pay P50,000.00 as moral damages, P20,000.00 as exemplary damages, P50,000.00 as attorney's fees.

SO ORDERED.[14]

On October 11, 2010, the plaintiffs filed a Motion for Writ of Execution Pending Appeal,[15] while the defendant bank filed a Motion for Reconsideration of the August 31, 2010 RTC Decision.[16]

In its November 22, 2010 Order, the RTC denied defendant bank's motion for reconsideration of its August 31, 2010 Decision.[17]

On April 12, 2012, the defendant bank appealed the August 31, 2010 RTC Decision to this Court. In its appeal, which was docketed as CA-G.R. CV No. 02724-MIN,[18] defendant bank assigns the following as errors of the trial court-

A.

THE TRIAL COURT ERRED IN FINDING THAT THE CONSENT OF THE APPELLEES SPOUSES GENOTIVA WERE VITIATED BY UNDUE INFLUENCE WHEN THEY SIGNED THE REAL ESTATE MORTGAGE[;]

B.

THE TRIAL COURT ERRED IN FINDING THAT THE ACTION OF THE APPELLEES HAS NOT YET PRESCRIBED[;]

C.

THE TRIAL COURT ERRED IN FINDING THAT THE P500,000.00 WAS ACTUALLY INTENDED FOR THE REDEMPTION OF THE REAL ESTATE MORTGAGE AND NOT FOR THE PAYMENT OF THE GOLDLAND LOAN[;]

D.

THE TRIAL COURT ERRED IN FINDING THAT THE APPELLANT IS NOT ENTITLED TO FORECLOSE THE MORTGAGE OF THE SURETIES AS THERE IS NO JUDGMENT WHICH WOULD ENTITLE THE APPELLANT'S THERETO[;]

E.

THE TRIAL COURT ERRED IN FINDING THAT THE APPELLEES ARE ENTITLED TO DAMAGES.[19]

On May 17, 2011, the RTC issued an Order granting plaintiffs' motion for writ of execution pending appeal.[20]

In its Order[21] dated June 23, 2011, the RTC denied defendant bank's motion for reconsideration of its May 17, 2011 Order.

On June 29, 2011, the defendant bank filed an Urgent Motion to Stay Discretionary Execution by Posting of Supersedeas Bond.[22] The RTC denied the said motion in its July 11, 2011 Order.[23]

In its August 16, 2011 Order, the RTC denied the defendant bank's motion for reconsideration of its July 11, 2011 Order.[24]

On August 31, 2011, Equitable-PCI Bank, Inc. filed before this Court a Petition for Certiorari under Rule 65 of the Revised Rules of Court, with Prayer for the Issuance of a TRO and/or WPI, docketed as CA-G.R. SP No. 04424-MIN,[25] seeking to nullify the RTC Orders dated May 17, 2011 and July 11, 2011. Petitioner bank raises the following issues:

A. WHETHER IN GRANTING THE EXECUTION PENDING APPEAL ON THE GROUND THAT THE APPEAL WILL TAKE TOO LONG TO RESOLVE AND YET ADMITTING THE POSSIBILITY THAT THE DECISION MIGHT BE REVERSED, THE HONORABLE PUBLIC RESPONDENT GRAVELY ABUSED HIS DISCRETION WHICH RESULTED TO AN EXERCISE OF EXCESS OF JURISDICTION; AND

B. WHETHER DESPITE THE FACT THAT A SUPERSEDEAS BOND WOULD HAVE ADDRESSED HIS CONCERN ABOUT THE MONEY JUDGMENT LOSING EFFICACY DUE TO INFLATION THE HONORABLE PUBLIC RESPONDENT STILL REFUSED TO ALLOW THE POSTING OF SUCH BOND, THE PUBLIC RESPONDENT GRAVELY ABUSED HIS DISCRETION AMOUNTING TO AN EXCESS IN JURISDICTION.[26]

In a Resolution dated January 25, 2012, petitioner's application for TRO and/or WPI was denied by this Court.[27]

Ruling of the Court

The pivotal issue in this case is whether the Spouses Genotiva, as sureties, are solidarily liable with Goldland respecting its obligation to PCI Bank.

The appeal is meritorious.

Suretyship is a contractual relation resulting from an agreement whereby one person, the surety, engages to be answerable for the debt, default or miscarriage of another, known as the principal. The surety's obligation is not an original and direct one for the performance of his own act, but merely accessory or collateral to the obligation contracted by the principal. Nevertheless, although the contract of a surety is in essence secondary only to a valid principal obligation, his liability to the creditor or promise of the principal is said to be direct, primary and absolute; in other words, he is directly and equally bound with the principal. The surety therefore becomes liable for the debt or duty of another although he possesses no direct or personal interest over the obligations nor does he receive any benefit therefrom.[28]

A perusal of the records shows that the Spouses Genotiva are among the sureties who signed the Notarized Deed of Suretyship dated November 7, 1996 in favor of PCI Bank. Under the said agreement, the Spouses Genotiva and the other stockholders of Goldland agreed to bind themselves "solidarily with Goldland Equity, Inc. xxx respecting its obligation to Philippine Commercial International Bank xxx, the principal amount of which has not yet been computed or fixed at ANY AND/OR ALL AMOUNTS AS MAY BE AWAILED OF." [29] As a consequence of the execution of the suretyship agreement, the defendant bank granted Goldland a loan accommodation of P2,000,000, as evidenced by the Promissory Note dated November 12, 1996. Under Article 1216 of the New Civil Code, [30] PCI Bank as creditor may proceed against Spouses Genotiva as sureties. PCI Bank's right to collect payment from the surety exists independently of its right to proceed directly against the principal debtor. In fact, the creditor bank may go against the surety alone without prior demand for payment on the principal debtor. [31] Consequently, PCI Bank has the right to withhold Violet Genotiva's retirement benefit since she is one of the sureties of Goldland. To the mind of this Court, the Spouses Genotiva, in executing the real estate mortgage of their property to secure Goldland's obligation so that the retirement benefits be released, agreed to accept what they thought was a lesser of two disadvantages. In such case, they made a choice free and untrammelled and must accordingly abide by it. Thus, the court a quo erred in finding the mortgage voidable on the ground that Spouses Genotiva's consent was vitiated by undue influence. As held in *Martinez y Fernandez v. Hongkong and Shanghai Banking Corp.*, [32]

It is necessary to distinguish between real duress and the motive which is present when one gives his consent

reluctantly. A contract is valid even though one of the parties entered into it against his wishes and desires or even against his better judgment. Contracts are also valid even though they are entered into by one of the parties without hope of advantage or profit. A contract whereby reparation is made by one party for injuries which he has willfully inflicted upon another is one which from its inherent nature is entered into reluctantly and against the strong desires of the party making the reparation. He is confronted with a situation in which he find the necessity either of making reparation or of taking the consequences, civil or criminal, of his unlawful acts. He makes the contract of reparation with extreme reluctance and only by the compelling force of the punishment threatened. Nevertheless such contract is binding and enforceable. xxx In legal effect there is no difference between a contract wherein one of the contracting parties exchanges one condition for another because he looks for greater gain or profit by reason of such change and an agreement wherein one of the contracting parties agrees to accept the lesser of two disadvantages. In either case he makes a choice free and untrammelled and must accordingly abide by it. xxx

xxx. The question in each case is exactly the same as in all such relations, was she acting according to the dictates of her own judgment, whether good or bad, or from fear, force or undue influence? If there are time and opportunity for judgment to take the place of fear, and if apart from the threat there are reasons disclosed which might lead one in the exercise of good judgment to perform the acts complained of, then the evidence as duress and undue influence must be very clear in order that such acts may be recalled.[33]

Article 2085 of the New Civil Code also provides that third persons who are not parties to the principal obligation may secure the latter by mortgaging their own property. Consequently, since valid is the real estate mortgage executed by Spouses Genotiva to secure Goldland's obligation, well settled in jurisprudence is the rule that foreclosure is but a necessary consequence of non-payment of a mortgage indebtedness.[34] It is undisputed that Goldland has defaulted in its obligation to PCI Bank. As shown in the Application for Extra-Judicial Foreclosure of Real Estate Mortgage filed on November 21, 2002, Goldland's principal obligation inclusive of stipulated interest amounted to P3,664,069.24.[35] Thus, when PCI Bank foreclosed the mortgaged property, PCI Bank merely exercised its right to do so. As held in *Commodity Financing Co., Inc. v. Jimenez*,[36]

In real estate mortgage, when the principal obligation is not paid when due, the mortgagee has the right to foreclose the mortgage and to have the property seized and sold with a view to applying the proceeds to the payment of the principal obligation.

Moreover, the presumptions of regularity and good faith compel this Court to affirm the validity of the foreclosure sale.

As to the P500,000 offered by the Spouses Genotiva to buy back the real estate mortgage, this Court is of the view that the PCI bank, as creditor, has the option whether or not to accept such offer. When PCI bank rejected the offer and applied the said amount as payment for Goldland's past due interest, it was merely exercising its right as a creditor under the Suretyship Agreement. Again, as sureties, Spouses Genotiva's liability to the creditor is direct, primary and absolute; in other words, they are directly and equally bound with the principal debtor. Moreover, Article 1253 of the New Civil Code provides that if the debt produces interest, payment of the principal shall not be deemed to have been made until the interest have been covered.

This Court is not unmindful of the spouses' predicament. However, it cannot be gainsaid that their misfortune is but the result of the implementation of a bona fide contract they freely executed, the terms of which they are presumed to have thoroughly examined. They were not at all compelled to act as sureties; They had a choice. The Court cannot be a party to the contract's impairment and relieve a surety from the effects of an unwise but nonetheless a valid surety contract.[37]

At any rate, under Article 1217 of the New Civil Code, the Spouses Genotiva may claim from their co-debtors the

share which corresponds to each, with interest for the payment already made.

Furthermore, this Court finds no reason to hold Spouses Genotiva liable for damages and attorney's fees since no manifest bad faith can be imputed on their part.

The foregoing renders a disquisition of the other issues unnecessary.

WHEREFORE, the appeal in CA-G.R. CV No. 02724-MIN and the petition in CA-G.R. SP No. 04424-MIN are GRANTED. The Decision dated August 31, 2010 and the Orders dated May 17, 2011 and July 11, 2011 of the Regional Trial Court, 10th Judicial Region, Branch No. 21, Cagayan de Oro City, in Civil Case No. 2003-060 are SET ASIDE and a new judgment is rendered dismissing Spouses Genotiva's complaint against the Equitable-PCI Bank (presently known as Banco de Oro Unibank, Inc.) for lack of merit.

SO ORDERED.

CERTIFICATION

Pursuant to Article VIII, Section 13 of the Constitution, it is hereby certified that the conclusions in the above decision were reached in consultation before the case was assigned to the writer of the opinion of the Court.

Borja, J., Ch., and Baldelles, JJ., concur.

[1] Records, Volume II (CA-G.R. CV No. 02724-MIN), pp. 188-201.

[2] Rollo (CA-G.R. SP No. 04424-MIN), pp. 2-44.

[3] Id., pp. 173-175.

[4] Records, Volume I (CA-G.R. CV No. 02724-MIN), pp. 3-12.

[5] Ibid.

[6] Id., p. 26.

[7] Records, Volume II (CA-G.R. CV No. 02724-MIN), p. 190.

[8] Records, Volume I (CA-G.R. CV No. 02724-MIN), pp. 148-149.

[9] Id., pp. 278-286.

[10] Records, Volume II (CA-G.R. CV No. 02724-MIN), p. 97.

[11] Id., p. 38.

[12] Records, Volume I (CA-G.R. CV No. 02724-MIN), pp. 285-286.

[13] Supra at note 1.

[14] Records, Volume II (CA-G.R. CV No. 02724-MIN), pp. 200-201.

[15] Id., pp. 202-204.

[16] Id., pp. 205-227.

- [17] *Id.*, p. 239.
- [18] *Rollo* (CA-G.R. CV No. 02724-MIN), pp. 14-44.
- [19] *Id.*, pp. 16-17.
- [20] *Supra* at note 3.
- [21] *Records*, Volume II(CA-G.R. CV No. 02724-MIN), pp. 293-294.
- [22] *Id.*, pp. 295-299.
- [23] *Id.*, p. 304.
- [24] *Id.*, p. 316.
- [25] *Supra* at note 2.
- [26] *Rollo* (CA-G.R. SP No. 04424-MIN), p. 18.
- [27] *Id.*, pp. 232-234.
- [28] *Security Pacific Assurance Corp. v. Tria-Infante et al.*, G.R. 144740, August 31, 2005.
- [29] *Records*, Volume II(CA-G.R. CV No. 02724-MIN), p. 97.
- [30] *Ong v. PCIB*, G.R. 160466, January 17, 2005.
- [31] *Ibid.*
- [32] G.R. L-5496, February 19, 1910.
- [33] *Ibid.*
- [34] *Producers Bank of the Philippines v. Court of Appeals, et al.*, 365 SCRA 326 (2001).
- [35] *Records*, Volume I (CA-G.R. CV No. 02724-MIN), p. 409.
- [36] 91 SCRA 57, 1979.**
- [37] *Gateway Electronics Corp , et al. v. AsianBank Corp.*, G.R. 172041, December 18, 2008.

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.