

RIZAL COMMERCIAL BANKING CORPORATION, UY CHUN BING AND ELI D. LAO, PETITIONERS, VS. COURT OF APPEALS AND GOYU & SONS, INC., RESPONDENTS.

G.R. No. 128833. April 20, 1998

Ponente: MELO, J.

Read online (full-text search, related cases, audio case brief): <https://batas.org/library/g-r-no-128833/>

MELO, J.:

The issues relevant to the herein three consolidated petitions revolve around the fire loss claims of respondent Goyu & Sons, Inc. (GOYU) with petitioner Malayan Insurance Company, Inc. (MICO) in connection with the mortgage contracts entered into by and between Rizal Commercial Banking Corporation (RCBC) and GOYU.

The Court of Appeals ordered MICO to pay GOYU its claims in the total amount of P74,040,518.58, plus 37% interest per annum commencing July 27, 1992. RCBC was ordered to pay actual and compensatory damages in the amount of P5,000,000.00. MICO and RCBC were held solidarily liable to pay GOYU P1,500,000.00 as exemplary damages and P1,500,000.00 for attorney's fees. GOYU's obligation to RCBC was fixed at P68,785,069.04 as of April 1992, without any interest, surcharges, and penalties. RCBC and MICO appealed separately but, in view of the common facts and issues involved, their individual petitions were consolidated.

The undisputed facts may be summarized as follows:

GOYU applied for credit facilities and accommodations with RCBC at its Binondo Branch. After due evaluation, RCBC Binondo Branch, through its key officers, petitioners Uy Chun Bing and Eli D. Lao, recommended GOYU's application for approval by RCBC's executive committee. A credit facility in the amount of P30 million was initially granted. Upon GOYU's application and Uy's and Lao's recommendation, RCBC's executive committee increased GOYU's credit facility to P50 million, then to P90 million, and finally to P117 million.

As security for its credit facilities with RCBC, GOYU executed two real estate mortgages and two chattel mortgages in favor of RCBC, which were registered with the Registry of Deeds at Valenzuela, Metro Manila. Under each of these four mortgage contracts, GOYU committed itself to insure the mortgaged property with an insurance company approved by RCBC, and subsequently, to endorse and deliver the insurance policies to RCBC.

GOYU obtained in its name a total of ten insurance policies from MICO. In February 1992, Alchester Insurance Agency, Inc., the insurance agent where GOYU obtained the Malayan insurance policies, issued nine endorsements in favor of RCBC seemingly upon instructions of GOYU (Exhibits "1-Malayan" to "9-Malayan").

On April 27, 1992, one of GOYU's factory buildings in Valenzuela was gutted by fire. Consequently, GOYU submitted its claim for indemnity on account of the loss insured against. MICO denied the claim on the ground that the insurance policies were either attached pursuant to writs of attachments/garnishments issued by various courts or that the insurance proceeds were also claimed by other creditors of GOYU alleging better rights to the proceeds than the insured. GOYU filed a complaint for specific performance and damages which was docketed at

the Regional Trial Court of the National Capital Judicial Region (Manila, Branch 3) as Civil Case No. 93-65442, now subject of the present G.R. No. 128833 and 128866.

RCBC, one of GOYU's creditors, also filed with MICO its formal claim over the proceeds of the insurance policies, but said claims were also denied for the same reasons that MICO denied GOYU's claims.

In an interlocutory order dated October 12, 1993 (Record, pp. 311-312), the Regional Trial Court of Manila (Branch 3), confirmed that GOYU's other creditors, namely, Urban Bank, Alfredo Sebastian, and Philippine Trust Company obtained their respective writs of attachments from various courts, covering an aggregate amount of P14,938,080.23, and ordered that the proceeds of the ten insurance policies be deposited with the said court minus the aforementioned P14,938,080.23. Accordingly, on January 7, 1994, MICO deposited the amount of P50,505,594.60 with Branch 3 of the Manila RTC.

In the meantime, another notice of garnishment was handed down by another Manila RTC sala (Branch 28) for the amount of P8,696,838.75 (Exhibit "22-Malayan").

After trial, Branch 3 of the Manila RTC rendered judgment in favor of GOYU, disposing:

WHEREFORE, judgment is hereby rendered in favor of the plaintiff and against the defendant, Malayan Insurance Company, Inc. and Rizal Commercial Banking Corporation, ordering the latter as follows:

1. For defendant Malayan Insurance Co., Inc.:

a. To pay the plaintiff its fire loss claims in the total amount of P74,040,518.58 less the amount of P50,000,000.00 which is deposited with this Court;

b. To pay the plaintiff damages by way of interest for the duration of the delay since July 27, 1992 (ninety days after defendant insurer's receipt of the required proof of loss and notice of loss) at the rate of twice the ceiling prescribed by the Monetary Board, on the following amounts:

1) P50,000,000.00 — from July 27, 1992 up to the time said amount was deposited with this Court on January 7, 1994;

2) P24,040,518.58 — from July 27, 1992 up to the time when the writs of attachments were received by defendant Malayan;

2. For defendant Rizal Commercial Banking Corporation:

a. To pay the plaintiff actual and compensatory damages in the amount of P2,000,000.00;

3. For both defendants Malayan and RCBC:

a. To pay the plaintiff, jointly and severally, the following amounts:

1) P1,000,000.00 as exemplary damages;

2) P1,000,000.00 as, and for, attorney's fees;

3) Costs of suit.

and on the Counterclaim of defendant RCBC, ordering the plaintiff to pay its loan obligations with defendant RCBC in the amount of P68,785,069.04, as of April 27, 1992, with interest thereon at the rate stipulated in the respective promissory notes (without surcharges and penalties) per computation, pp. 14-A, 14-B & 14-C.

FURTHER, the Clerk of Court of the Regional Trial Court of Manila is hereby ordered to release immediately

to the plaintiff the amount of P50,000,000.00 deposited with the Court by defendant Malayan, together with all the interests earned thereon.

(Record, pp. 478-479.)

From this judgment, all parties interposed their respective appeals. GOYU was unsatisfied with the amounts awarded in its favor. MICO and RCBC disputed the trial court's findings of liability on their part. The Court of Appeals partly granted GOYU's appeal, but sustained the findings of the trial court with respect to MICO and RCBC's liabilities, thusly:

WHEREFORE, the decision of the lower court dated June 29, 1994 is hereby modified as follows:

1. FOR DEFENDANT MALAYAN INSURANCE CO., INC:

a) To pay the plaintiff its fire loss claim in the total amount of P74,040,518.58 less the amount of P50,505,594.60 (per O.R. No. 3649285) plus deposited in court and damages by way of interest commencing July 27, 1992 until the time Goyu receives the said amount at the rate of thirty-seven (37%) percent per annum which is twice the ceiling prescribed by the Monetary Board.

2. FOR DEFENDANT RIZAL COMMERCIAL BANKING CORPORATION:

a) To pay the plaintiff actual and compensatory damages in the amount of P5,000,000.00.

3. FOR DEFENDANTS MALAYAN INSURANCE CO., INC., RIZAL COMMERCIAL BANKING CORPORATION, UY CHUN BING AND ELI D. LAO:

a) To pay the plaintiff jointly and severally the following amounts:

1. P1,500,000.00 as exemplary damages;
2. P1,500,000.00 as and for attorney's fees.

4. And on RCBC's Counterclaim, ordering the plaintiff Goyu & Sons, Inc. to pay its loan obligation with RCBC in the amount of P68,785,069.04 as of April 27, 1992 without any interest, surcharges and penalties.

The Clerk of the Court of the Regional Trial Court of Manila is hereby ordered to immediately release to Goyu & Sons, Inc. the amount of P50,505,594.60 (per O.R. No. 3649285) deposited with it by Malayan Insurance Co., Inc., together with all the interests thereon.

(Rollo, p. 200.)

RCBC and MICO are now before us in G.R. No. 128833 and 128866, respectively, seeking review and consequent reversal of the above dispositions of the Court of Appeals.

In G.R. No. 128834, RCBC likewise appeals from the decision in C.A. G.R. No. CV-48376, which case, by virtue of the Court of Appeals' resolution dated August 7, 1996, was consolidated with C.A. G.R. No. CV-46162 (subject of herein G.R. No. 128833). At issue in said petition is RCBC's right to intervene in the action between Alfredo C. Sebastian (the creditor) and GOYU (the debtor), where the subject insurance policies were attached in favor of Sebastian.

After a careful review of the material facts as found by the two courts below in relation to the pertinent and applicable laws, we find merit in the submissions of RCBC and MICO.

The several causes of action pursued below by GOYU gave rise to several related issues which are now submitted in the petitions before us. This Court, however, discerns one primary and central issue, and this is, whether or not

RCBC, as mortgagee, has any right over the insurance policies taken by GOYU, the mortgagor, in case of the occurrence of loss.

As earlier mentioned, accordant with the credit facilities extended by RCBC to GOYU, the latter executed several mortgage contracts in favor of RCBC. It was expressly stipulated in these mortgage contracts that GOYU shall insure the mortgaged property with any of the insurance companies acceptable to RCBC. GOYU indeed insured the mortgaged property with MICO, an insurance company acceptable to RCBC. Based on their stipulations in the mortgage contracts, GOYU was supposed to endorse these insurance policies in favor of, and deliver them, to RCBC. Alchester Insurance Agency, Inc., MICO's underwriter from whom GOYU obtained the subject insurance policies, prepared the nine endorsements (see Exh. "1-Malayan" to "9-Malayan"; also Exh. "51-RCBC" to "59-RCBC"), copies of which were delivered to GOYU, RCBC, and MICO. However, because these endorsements do not bear the signature of any officer of GOYU, the trial court, as well as the Court of Appeals, concluded that the endorsements are defective.

We do not quite agree.

It is settled that a mortgagor and a mortgagee have separate and distinct insurable interests in the same mortgaged property, such that each one of them may insure the same property for his own sole benefit. There is no question that GOYU could insure the mortgaged property for its own exclusive benefit. In the present case, although it appears that GOYU obtained the subject insurance policies naming itself as the sole payee, the intentions of the parties as shown by their contemporaneous acts, must be given due consideration in order to better serve the interest of justice and equity.

It is to be noted that nine endorsement documents were prepared by Alchester in favor of RCBC. The Court is in a quandary how Alchester could arrive at the idea of endorsing any specific insurance policy in favor of any particular beneficiary or payee other than the insured had not such named payee or beneficiary been specifically disclosed by the insured itself. It is also significant that GOYU voluntarily and purposely took the insurance policies from MICO, a sister company of RCBC, and not just from any other insurance company. Alchester would not have found out that the subject pieces of property were mortgaged to RCBC had not such information been voluntarily disclosed by GOYU itself. Had it not been for GOYU, Alchester would not have known of GOYU's intention of obtaining insurance coverage in compliance with its undertaking in the mortgage contracts with RCBC, and verily, Alchester would not have endorsed the policies to RCBC had it not been so directed by GOYU.

On equitable principles, particularly on the ground of estoppel, the Court is constrained to rule in favor of mortgagor RCBC. The basis and purpose of the doctrine was explained in *Philippine National Bank vs. Court of Appeals* (94 SCRA 357 [1979]), to wit:

The doctrine of estoppel is based upon the grounds of public policy, fair dealing, good faith and justice, and its purpose is to forbid one to speak against his own act, representations, or commitments to the injury of one to whom they were directed and who reasonably relied thereon. The doctrine of estoppel springs from equitable principles and the equities in the case. It is designed to aid the law in the administration of justice where without its aid injustice might result. It has been applied by this Court wherever and whenever special circumstances of a case so demand.

(p. 368.)

Evelyn Lozada of Alchester testified that upon instructions of Mr. Go, through a certain Mr. Yam, she prepared in quadruplicate on February 11, 1992 the nine endorsement documents for GOYU's nine insurance policies in favor of RCBC. The original copies of each of these nine endorsement documents were sent to GOYU, and the

others were sent to RCBC and MICO, while the fourth copies were retained for Alchester's file (tsn, February 23, pp. 7-8). GOYU has not denied having received from Alchester the originals of these endorsements.

RCBC, in good faith, relied upon the endorsement documents sent to it as this was only pursuant to the stipulation in the mortgage contracts. We find such reliance to be justified under the circumstances of the case. GOYU failed to seasonably repudiate the authority of the person or persons who prepared such endorsements. Over and above this, GOYU continued, in the meantime, to enjoy the benefits of the credit facilities extended to it by RCBC. After the occurrence of the loss insured against, it was too late for GOYU to disown the endorsements for any imagined or contrived lack of authority of Alchester to prepare and issue said endorsements. If there had not been actually an implied ratification of said endorsements by virtue of GOYU's inaction in this case, GOYU is at the very least estopped from assailing their operative effects. To permit GOYU to capitalize on its non-confirmation of these endorsements while it continued to enjoy the benefits of the credit facilities of RCBC which believed in good faith that there was due endorsement pursuant to their mortgage contracts, is to countenance grave contravention of public policy, fair dealing, good faith, and justice. Such an unjust situation, the Court cannot sanction. Under the peculiar circumstances obtaining in this case, the Court is bound to recognize RCBC's right to the proceeds of the insurance policies if not for the actual endorsement of the policies, at least on the basis of the equitable principle of estoppel.

GOYU cannot seek relief under Section 53 of the Insurance Code which provides that the proceeds of insurance shall exclusively apply to the interest of the person in whose name or for whose benefit it is made. The peculiarity of the circumstances obtaining in the instant case presents a justification to take exception to the strict application of said provision, it having been sufficiently established that it was the intention of the parties to designate RCBC as the party for whose benefit the insurance policies were taken out. Consider thus the following:

1. It is undisputed that the insured pieces of property were the subject of mortgage contracts entered into between RCBC and GOYU in consideration of and for securing GOYU's credit facilities from RCBC. The mortgage contracts contained common provisions whereby GOYU, as mortgagor, undertook to have the mortgaged property properly covered against any loss by an insurance company acceptable to RCBC.
2. GOYU voluntarily procured insurance policies to cover the mortgaged property from MICO, no less than a sister company of RCBC and definitely an acceptable insurance company to RCBC.
3. Endorsement documents were prepared by MICO's underwriter, Alchester Insurance Agency, Inc., and copies thereof were sent to GOYU, MICO, and RCBC. GOYU did not assail, until of late, the validity of said endorsements.
4. GOYU continued until the occurrence of the fire, to enjoy the benefits of the credit facilities extended by RCBC which was conditioned upon the endorsement of the insurance policies to be taken by GOYU to cover the mortgaged properties.

This Court can not over stress the fact that upon receiving its copies of the endorsement documents prepared by Alchester, GOYU, despite the absence of its written conformity thereto, obviously considered said endorsement to be sufficient compliance with its obligation under the mortgage contracts since RCBC accordingly continued to extend the benefits of its credit facilities and GOYU continued to benefit therefrom. Just as plain too is the intention of the parties to constitute RCBC as the beneficiary of the various insurance policies obtained by GOYU. The intention of the parties will have to be given full force and effect in this particular case. The insurance proceeds may, therefore, be exclusively applied to RCBC, which under the factual circumstances of the case, is truly the person or entity for whose benefit the policies were clearly intended.

Moreover, the law's evident intention to protect the interests of the mortgagee upon the mortgaged property is

expressed in Article 2127 of the Civil Code which states:

ART. 2127. The mortgage extends to the natural accessions, to the improvements, growing fruits, and the rents or income not yet received when the obligation becomes due, and to the amount of the indemnity granted or owing to the proprietor from the insurers of the property mortgaged, or in virtue of expropriation for public use, with the declarations, amplifications and limitations established by law, whether the estate remains in the possession of the mortgagor, or it passes into the hands of a third person.

Significantly, the Court notes that out of the 10 insurance policies subject of this case, only 8 of them appear to have been subject of the endorsements prepared and delivered by Alchester for and upon instructions of GOYU as shown below:

INSURANCE POLICY PARTICULARS ENDORSEMENT

a. Policy Number : F-114-07795 None

Issue Date : March 18, 1992

Expiry Date : April 5, 1993

Amount : P9,646,224.92

b. Policy Number : ACIA/F-174-07660 Exhibit "1-Malayan"

Issue Date : January 18, 1992

Expiry Date : February 9, 1993

Amount : P4,307,217.54

c. Policy Number : ACIA/F-114-07661 Exhibit "2-Malayan"

Issue Date : January 18, 1992

Expiry Date : February 15, 1993

Amount : P6,603,586.43

d. Policy Number : ACIA/F-114-07662 Exhibit "3-Malayan"

Issue Date : January 18, 1992

Expiry Date : (not legible)

Amount : P6,603,586.43

e. Policy Number : ACIA/F-114-07663 Exhibit "4-Malayan"

Issue Date : January 18, 1992

Expiry Date : February 9, 1993

Amount : P9,457,972.76

f. Policy Number : ACIA/F-114-07623 Exhibit “7-Malayan”

Issue Date : January 13, 1992

Expiry Date : January 13, 1993

Amount : P24,750,000.00

g. Policy Number : ACIA/F-174-07223 Exhibit “6-Malayan”

Issue Date : May 29, 1991

Expiry Date : June 27, 1992

Amount : P6,000,000.00

h. Policy Number : CI/F-128-03341 None

Issue Date : May 3, 1991

Expiry Date : May 3, 1992

Amount : P10,000,000.00

i. Policy Number : F-114-07402 Exhibit “8-Malayan”

Issue Date : September 16, 1991

Expiry Date : October 19, 1992

Amount : P32,252,125.20

j. Policy Number : F-114-07525 Exhibit “9-Malayan”

Issue Date : November 20, 1991

Expiry Date : December 5, 1992

Amount : P6,603,586.43

(pp. 456-457, Record; Folder of Exhibits for MICO.)

Policy Number F-114-07795 [(a) above] has not been endorsed. This fact was admitted by MICO’s witness, Atty. Farolan (tsn, February 16, 1994, p. 25). Likewise, the record shows no endorsement for Policy Number CI/F-128-03341 [(h) above]. Also, one of the endorsement documents, Exhibit “5-Malayan”, refers to a certain

insurance policy number ACIA-F-07066, which is not among the insurance policies involved in the complaint.

The proceeds of the 8 insurance policies endorsed to RCBC aggregate to P89,974,488.36. Being exclusively payable to RCBC by reason of the endorsement by Alchester to RCBC, which we already ruled to have the force and effect of an endorsement by GOYU itself, these 8 policies can not be attached by GOYU's other creditors up to the extent of the GOYU's outstanding obligation in RCBC's favor. Section 53 of the Insurance Code ordains that the insurance proceeds of the endorsed policies shall be applied exclusively to the proper interest of the person for whose benefit it was made. In this case, to the extent of GOYU's obligation with RCBC, the interest of GOYU in the subject policies had been transferred to RCBC effective as of the time of the endorsement. These policies may no longer be attached by the other creditors of GOYU, like Alfredo Sebastian in the present G.R. No. 128834, which may nonetheless forthwith be dismissed for being moot and academic in view of the results reached herein. Only the two other policies amounting to P19,646,224.92 may be validly attached, garnished, and levied upon by GOYU's other creditors. To the extent of GOYU's outstanding obligation with RCBC, all the rest of the other insurance policies above-listed which were endorsed to RCBC, are, therefore, to be released from attachment, garnishment, and levy by the other creditors of GOYU.

This brings us to the next relevant issue to be resolved, which is, the extent of GOYU's outstanding obligation with RCBC which the proceeds of the 8 insurance policies will discharge and liquidate, or put differently, the actual amount of GOYU's liability to RCBC.

The Court of Appeals simply echoed the declaration of the trial court finding that GOYU'S total obligation to RCBC was only P68,785,060.04 as of April 27, 1992, thus sanctioning the trial court's exclusion of Promissory Note No. 421-92 (renewal of Promissory Note No. 908-91) and Promissory Note No. 420-92 (renewal of Promissory Note No. 952-91) on the ground that their execution is highly questionable for not only are these dated after the fire, but also because the signatures of either GOYU or any its representative are conspicuously absent. Accordingly, the Court of Appeals speculated thusly:

...Hence, this Court is inclined to conclude that said promissory notes were pre-signed by plaintiff in blank terms, as averred by plaintiff, in contemplation of the speedy grant of future loans, for the same practice of procedure has always been adopted in its previous dealings with the bank.

(Rollo, pp. 181-182.)

The fact that the promissory notes bear dates posterior to the fire does not necessarily mean that the documents are spurious, for it is presumed that the ordinary course of business had been followed (*Metropolitan Bank and Trust Company vs. Quilts and All, Inc.*, 222 SCRA 486 [1993]). The obligor and not the holder of the negotiable instrument has the burden of proof of showing that he no longer owes the obligee any amount (*Travel-On, Inc. vs. Court of Appeals*, 210 SCRA 351 [1992]).

Even casting aside the presumption of regularity of private transactions, receipt of the loan amounting to P121,966,058.67 (Exhibits 1-29, RCBC) was admitted by GOYU as indicated in the testimony of Go Song Hiap when he answered the queries of the trial court:

ATTY. NATIVIDAD

Q: But insofar as the amount stated in Exhibits 1 to 29-RCBC, you received all the amounts stated therein?

A: Yes, sir, I received the amount.

COURT

He is asking if he received all the amounts stated in Exhibits 1 to 29-RCBC?

WITNESS:

Yes, Your Honor, I received all the amounts.

COURT

Indicated in the Promissory Notes?

WITNESS

A. The promissory Notes they did not give to me but the amount I asked which is correct, Your Honor.

COURT

Q: You mean to say the amounts indicated in Exhibits 1 to 29-RCBC is correct?

A: Yes, Your Honor.

(tsn, Jan. 14, 1994, p. 26.)

Furthermore, aside from its judicial admission of having received all the proceeds of the 29 promissory notes as hereinabove quoted, GOYU also offered and admitted to RCBC that its obligation be fixed at P116,301,992.60 as shown in its letter dated March 9, 1993, which pertinently reads:

We wish to inform you, therefore that we are ready and willing to pay the current past due account of this company in the amount of P116,301,992.60 as of 21 January 1993, specified in pars. 15, p. 10, and 18, p. 13 of your affidavits of Third Party Claims in the Urban case at Makati, Metro Manila and in the Zamboanga case at Zamboanga city, respectively, less the total of P8,851,519.71 paid from the Seaboard and Equitable insurance companies and other legitimate deductions. We accept and confirm this amount of P116,301,992.60 as stated as true and correct.

(Exhibit BB.)

The Court of Appeals erred in placing much significance on the fact that the excluded promissory notes are dated after the fire. It failed to consider that said notes had for their origin transactions consummated prior to the fire. Thus, careful attention must be paid to the fact that Promissory Notes No. 420-92 and 421-92 are mere renewals of Promissory Notes No. 908-91 and 952-91, loans already availed of by GOYU.

The two courts below erred in failing to see that the promissory notes which they ruled should be excluded for bearing dates which are after that of the fire, are mere renewals of previous ones. The proceeds of the loan represented by these promissory notes were admittedly received by GOYU. There is ample factual and legal basis for giving GOYU's judicial admission of liability in the amount of P116,301,992.60 full force and effect

It should, however, be quickly added that whatever amount RCBC may have recovered from the other insurers of the mortgaged property will, nonetheless, have to be applied as payment against GOYU's obligation. But, contrary to the lower courts' findings, payments effected by GOYU prior to January 21, 1993 should no longer be deducted. Such payments had obviously been duly considered by GOYU, in its aforequoted letter dated March 9, 1993, wherein it admitted that its past due account totaled P116,301,992.60 as of January 21, 1993.

The net obligation of GOYU, after deductions, is thus reduced to P107,246,887.90 as of January 21, 1993, to wit:

Total Obligation as admitted by GOYU as of January 21, 1993: P116,301,992.60

Broken down as follows

Principal^[1] Interest

Regular 80,535,946.32

FDU 7,548,025.17

Total: 108,083,971.49 8,218,021.11[2]

LESS:

1) Proceeds from

Seaboard Eastern

Insurance Company: 6,095,145.81

2) Proceeds from

Equitable Insurance

Company: 2,756,373.00

3) Payment from

foreign department

negotiation: 203,584.89

9,055,104.70[3]

NET AMOUNT as of January 21, 1993: P 107,246,887.90

The need for the payment of interest due upon the principal amount of the obligation, which is the cost of money to RCBC, the primary end and the ultimate reason for RCBC's existence and being, was duly recognized by the trial court when it ruled favorably on RCBC's counterclaim, ordering GOYU "to pay its loan obligation with RCBC in the amount of P68,785,069.04, as of April 27, 1992, with interest thereon at the rate stipulated in the respective promissory notes (without surcharges and penalties) per computation, pp. 14-A, 14-B, 14-C" (Record, p. 479). Inexplicably, the Court of Appeals, without even laying down the factual or legal justification for its ruling, modified the trial court's ruling and ordered GOYU "to pay the principal amount of P68,785,069.04 without any interest, surcharges and penalties" (Rollo, p. 200).

It is to be noted in this regard that even the trial court hedgingly and with much uncertainty deleted the payment of additional interest, penalties, and charges, in this manner:

Regarding defendant RCBC's commitment not to charge additional interest, penalties and surcharges, the same does not require that it be embodied in a document or some form of writing to be binding and enforceable. The principle is well known that generally a verbal agreement or contract is no less binding and effective than a written one. And the existence of such a verbal agreement has been amply established by the evidence in this case. In any event, regardless of the existence of such verbal agreement, it would still be unjust and inequitable for defendant RCBC to charge the plaintiff with surcharges and penalties considering the latter's pitiful situation. (Emphasis supplied.)

(Record, p. 476)

The essence or rationale for the payment of interest or cost of money is separate and distinct from that of surcharges and penalties. What may justify a court in not allowing the creditor to charge surcharges and penalties despite express stipulation therefor in a valid agreement, may not equally justify non-payment of interest. The

charging of interest for loans forms a very essential and fundamental element of the banking business, which may truly be considered to be at the very core of its existence or being. It is inconceivable for a bank to grant loans for which it will not charge any interest at all. We fail to find justification for the Court of Appeals' outright deletion of the payment of interest as agreed upon in the respective promissory notes. This constitutes gross error.

For the computation of the interest due to be paid to RCBC, the following rules of thumb laid down by this Court in *Eastern Shipping Lines, Inc. vs. Court of Appeals* (234 SCRA 78 [1994]), shall apply, to wit:

I. When an obligation, regardless of its source, i.e., law, contracts, quasi-contracts, delicts or quasi-delicts is breached, the contravenor can be held liable for damages. The provisions under Title XVIII on "Damages" of the Civil Code govern in determining the measure of recoverable damages.

II. With regard particularly to an award of interest in the concept of actual and compensatory damages, the rate of interest, as well as the accrual thereof, is imposed, as follows:

1. When the obligation is breached, and it consists in the payment of a sum of money, i.e., a loan or forbearance of money, the interest due should be that which may have been stipulated in writing. Furthermore, the interest due shall itself earn legal interest from the time it is judicially demanded. In the absence of stipulation, the rate of interest shall be 12% per annum to be computed from default, i.e., from judicial or extrajudicial demand under and subject to the provisions of Article 1169 of the Civil Code.

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 of 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.

3. When the judgment of the court awarding a sum of money becomes final and executory, the rate of legal interest, whether the case falls under paragraph 1 or paragraph 2, above, shall be 12% per annum from such finality until its satisfaction, this interim period being deemed to be by then an equivalent to a forbearance of credit.

(pp. 95-97.)

There being written stipulations as to the rate of interest owing on each specific promissory note as summarized and tabulated by the trial court in its decision (pp.470 and 471, Record) such agreed interest rates must be followed. This is very clear from paragraph II, sub-paragraph 1 quoted above.

On the issue of payment of surcharges and penalties, we partly agree that GOYU's pitiful situation must be taken into account. We do not agree, however, that payment of any amount as surcharges and penalties should altogether be deleted. Even assuming that RCBC, through its responsible officers, herein petitioners Eli Lao and Uy Chun Bing, may have relayed its assurance for assistance to GOYU immediately after the occurrence of the fire, we cannot accept the lower courts' finding that RCBC had thereby ipso facto effectively waived collection of any additional interests, surcharges, and penalties from GOYU. Assurances of assistance are one thing, but waiver of additional interests, surcharges, and penalties is another.

Surcharges and penalties agreed to be paid by the debtor in case of default partake of the nature of liquidated damages, covered by Section 4, Chapter 3, Title XVIII of the Civil Code. Article 2227 thereof provides:

ART. 2227. Liquidated damages, whether intended as a indemnity or penalty, shall be equitably reduced if they are iniquitous and unconscionable.

In exercising this vested power to determine what is iniquitous and unconscionable, the Court must consider the circumstances of each case. It should be stressed that the Court will not make any sweeping ruling that surcharges and penalties imposed by banks for non-payment of the loans extended by them are generally iniquitous and unconscionable. What may be iniquitous and unconscionable in one case, may be totally just and equitable in another. This provision of law will have to be applied to the established facts of any given case. Given the circumstances under which GOYU found itself after the occurrence of the fire, the Court rules the surcharges rates ranging anywhere from 9% to 27%, plus the penalty charges of 36%, to be definitely iniquitous and unconscionable. The Court tempers these rates to 2% and 3%, respectively. Furthermore, in the light of GOYU's offer to pay the amount of P116,301,992.60 to RCBC as March 1993 (See: Exhibit "BB"), which RCBC refused, we find it more in keeping with justice and equity for RCBC not to charge additional interest, surcharges, and penalties from that time onward.

Given the factual milieu spread hereover, we rule that it was error to hold MICO liable in damages for denying or withholding the proceeds of the insurance claim to GOYU.

Firstly, by virtue of the mortgage contracts as well as the endorsements of the insurance policies, RCBC has the right to claim the insurance proceeds, in substitution of the property lost in the fire. Having assigned its rights, GOYU lost its standing as the beneficiary of the said insurance policies.

Secondly, for an insurance company to be held liable for unreasonably delaying and withholding payment of insurance proceeds, the delay must be wanton, oppressive, or malevolent (*Zenith Insurance Corporation vs. CA*, 185 SCRA 403 [1990]). It is generally agreed, however, that an insurer may in good faith and honesty entertain a difference of opinion as to its liability. Accordingly, the statutory penalty for vexatious refusal of an insurer to pay a claim should not be inflicted unless the evidence and circumstances show that such refusal was willful and without reasonable cause as the facts appear to a reasonable and prudent man (*Buffalo Ins. Co. vs. Bommarito* [CCA 8[th]] 42 F [2d] 53, 70 ALR 1211; *Phoenix Ins. Co. vs. Clay*, 101 Ga. 331, 28 SE 853, 65 Am St Rep 307; *Kusnetsky vs. Security Ins. Co.*, 313 Mo. 143, 281 SW 47, 45 ALR 189). The case at bar does not show that MICO wantonly and in bad faith delayed the release of the proceeds. The problem in the determination of who is the actual beneficiary of the insurance policies, aggravated by the claim of various creditors who wanted to partake of the insurance proceeds, not to mention the importance of the endorsement to RCBC, to our mind, and as now borne out by the outcome herein, justified MICO in withholding payment to GOYU.

In adjudging RCBC liable in damages to GOYU, the Court of Appeals said that RCBC cannot avail itself of two simultaneous remedies in enforcing the claim of an unpaid creditor, one for specific performance and the other for foreclosure. In doing so, said the appellate court, the second action is deemed barred, RCBC having split a single cause of action (*Rollo*, pp. 195-199). The Court of Appeals was too accommodating in giving due consideration to this argument of GOYU, for the foreclosure suit is still pending appeal before the same Court of Appeals in CA G.R CV No. 46247, the case having been elevated by RCBC.

In finding that the foreclosure suit cannot prosper, the Fifteenth Division of the Court of Appeals pre-empted the resolution of said foreclosure case which is not before it. This is plain reversible error if not grave abuse of discretion.

As held in *Peña vs. Court of Appeals* (245 SCRA 691[1995]):

It should have been enough, nonetheless, for the appellate court to merely set aside the questioned orders of the trial court for having been issued by the latter with grave abuse of discretion. In likewise enjoining

permanently herein petitioner “from entering in and interfering with the use or occupation and enjoyment of petitioner’s (now private respondent) residential house and compound,” the appellate court in effect, precipitately resolved with finality the case for injunction that was yet to be heard on the merits by the lower court. Elevated to the appellate court, it might be stressed, were mere incidents of the principal case still pending with the trial court. In *Municipality of Biñan, Laguna vs. Court of Appeals*, 219 SCRA 69, we ruled that the Court of Appeals would have “no jurisdiction in a certiorari proceeding involving an incident in a case to rule on the merits of the main case itself which was not on appeal before it.”

(pp. 701-702.)

Anent the right of RCBC to intervene in Civil Case No. 1073, before the Zamboanga Regional Trial Court, since it has been determined that RCBC has the right to the insurance proceeds, the subject matter of intervention is rendered moot and academic. Respondent Sebastian must, however, yield to the preferential right of RCBC over the MICO insurance policies. It is basic and fundamental that the first mortgagee has superior rights over junior mortgagees or attaching creditors (*Alpha Insurance & Surety Co. vs. Reyes*, 106 SCRA 274 [1981]; *Sun Life Assurance Co. of Canada vs. Gonzales Diaz*, 52 Phil. 271 [1928]).

WHEREFORE, the petitions are hereby GRANTED and the decision and resolution of December 16, 1996 and April 3, 1997 in CA-G.R. CV No. 46162 are hereby REVERSED and SET ASIDE, and a new one entered:

1. Dismissing the Complaint of private respondent GOYU in Civil Case No. 93-65442 before Branch 3 of the Manila Regional Trial Court for lack of merit;
2. Ordering Malayan Insurance Company, Inc. to deliver to Rizal Commercial Banking Corporation the proceeds of the insurance policies in the amount of P51,862,390.94 (per report of adjuster Toplis & Harding (Far East), Inc., Exhibits “2” and “2-1”), less the amount of P50,505,594.60 (per O.R. No. 3649285);
3. Ordering the Clerk of Court to release the amount of P50,505,594.60 including the interests earned to Rizal Commercial Banking Corporation;
4. Ordering Goyu & Sons, Inc. to pay its loan obligation with Rizal Commercial Banking Corporation in the principal amount of P107,246,887.90, with interest at the respective rates stipulated in each promissory note from January 21, 1993 until finality of this judgment, and surcharges at 2% and penalties at 3% from January 21, 1993 to March 9, 1993, minus payments made by Malayan Insurance Company, Inc. and the proceeds of the amount deposited with the trial court and its earned interest. The total amount due RCBC at the time of the finality of this judgment shall earn interest at the legal rate of 12% in lieu of all other stipulated interests and charges until fully paid.

The petition of Rizal Commercial Banking Corporation against the respondent Court in CA-GR CV 48376 is DISMISSED for being moot and academic in view of the results herein arrived at. Respondent Sebastian’s right as attaching creditor must yield to the preferential rights of Rizal Commercial Banking Corporation over the Malayan insurance policies as first mortgagee.

SO ORDERED.

Regalado, (Chairman), Puno, Mendoza, and Martinez, JJ., concur.

[1] [1]See: Exhibit “70-RCBC”

[2] Computed by deducting P108,083,971.49 from the admitted amount of P116,301,992.60.

[3] To be deducted from interest payments due in accordance with Article 1253 of the Civil Code which provides:

ART. 1253. If debt produces interest, payment of the principal shall not be deemed to have been made until the interests have been covered.

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.