CHINA BANKING CORPORATION, PETITIONER, VS. HON. COURT OF APPEALS AND ARMED FORCES AND POLICE SAVINGS & LOAN ASSOCIATION, INC. (AFPSLAI), RESPONDENTS.

G.R. NO. 153267. June 23, 2005

Ponente: QUISUMBING, J.

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QUISUMBING, J.:

For review is the Decision[1] dated November 23, 2001 of the Court of Appeals in CA-G.R. SP No. 65740, affirming the Orders[2] dated August 25, 2000 and April 17, 2001, of the Regional Trial Court of Quezon City, Branch 216, which denied petitioner's motion to dismiss the civil action for a sum of money filed by private respondent. Likewise impugned is the Resolution[3] dated April 24, 2002 of the Court of Appeals denying petitioner's motion for reconsideration of said decision.

The antecedent facts, as summarized by the appellate court, are as follows:

On September 24, 1996, private respondent Armed Forces and Police Savings and Loan Association, Inc. (AFPSLAI) filed a complaint for a sum of money against petitioner China Banking Corporation (CBC) with the Regional Trial Court of Quezon City, Branch 216.

In its Answer,[4] the petitioner admitted being the registered owner of the Home Notes, the subject matter of the complaint. These are instruments of indebtedness issued in favor of a corporation named Fund Centrum Finance, Inc. (FCFI) and were sold, transferred and assigned to private respondent. Thus, the petitioner filed a Motion to Dismiss alleging that the real party in interest was FCFI, which was not joined in the complaint, and that petitioner was a mere trustee of FCFI.

The trial court denied the motion to dismiss. Petitioner filed a motion for reconsideration, which the court a quo again denied. Petitioner elevated the case to the Court of Appeals through a Petition for Certiorari and Prohibition. The appellate court denied the petition for lack of merit. The petitioner then brought the matter to this Court via a Petition for Certiorari, under Rule 65. We dismissed the petition for being an improper remedy.

Petitioner filed another Motion to Dismiss, this time invoking prescription. The lower court denied said motion to dismiss for lack of merit. It held that it was not apparent in the complaint whether or not prescription had set in. Thus, the trial judge directed petitioner to present its evidence. However, petitioner instead filed a motion for reconsideration, which the trial court denied, ratiocinating thus:

> This Court finds that there are conflicting claims on the issue of whether or not the action has already prescribed. A full blown trial is in order to determine fully the rights of the contending parties.[5]

Undeterred, petitioner impugned, through a petition under Rule 65, the two orders of the trial court claiming before the appellate court that:

> RESPONDENT COURT GROSSLY ERRED OR GRAVELY ABUSED ITS DISCRETION AMOUNTING

> TO LACK OF JURISDICTION IN DENYING THE MOTION TO DISMISS AND DECLARING THAT PRESCRIPTION HAS NOT SET IN AGAINST PRIVATE RESPONDENT.[6]

In its assailed Decision, the Court of Appeals dismissed the petition, ruling that:

> Since the defense of prescription under the facts obtaining did not rest on solid ground, the trial court took a more judicious move to direct the defendant therein, herein petitioner, to present its evidence. It is self-evident that with the evidence of both parties adduced, the trial court could proceed to decide on the merits of the case including prescription, and thus avoid collateral proceedings such as the one at bar that unduly prolong the final determination of the controversy. After all, prescription subsists as a valid issue in the decision process. The trial court wanted precisely a definite and definitive-factual premise to determine whether or not the action has prescribed. Surely, such exercise of judgment is not grave abuse of discretion correctible by writ of certiorari. If ever he erred, it was error in judgment. Errors of judgment may be reviewed only by appeal.[7]

Undaunted, petitioner now comes to this Court raising a simple issue:

> WHETHER [OR] NOT THE DATE OF MATURITY OF THE INSTRUMENTS IS THE DATE OF ACCRUAL OF CAUSE OF ACTION.[8]

Petitioner insists that upon the face of the complaint, prescription has set in. It claims that the Home Notes annexed to the pleading bearing a uniform maturity date of December 2, 1983 indicate the date of accrual of the cause of action. Hence, argues petitioner, private respondent's filing of the complaint for sum of money on September 24, 1996, is way beyond the prescriptive period of ten years under Article 1144[9] of the Civil Code. Citing Soriano v. Ubat,[10] petitioner maintains the prescription period starts from the time when the creditor may file an action, not from the time he wishes to do so.

However, private respondent counters that prescription is not apparent in the complaint because the maturity date of the Home Notes attached thereto is not the time of accrual of petitioner's action. Relying on Elido, Sr. v. Court of Appeals,[11] private respondent insists that the action accrued only on July 20, 1995, when demand to pay was made on petitioner. Private respondent also points out that since both the trial court and the appellate court found that prescription is not apparent on the face of the complaint, such factual finding should therefore be binding on this Court.

We find the petition without merit. The Court of Appeals validly dismissed the petition, there being no grave abuse of discretion committed by the trial court in denying petitioner's motion to dismiss the complaint on the ground of prescription.

Well-settled is the rule that since a cause of action requires, as essential elements, not only a legal right of the plaintiff and a correlative duty of the defendant but also "an act or omission of the defendant in violation of said legal right," the cause of action does not accrue until the party obligated refuses, expressly or impliedly, to comply with its duty.[12]

Otherwise stated, a cause of action has three elements, to wit, (1) a right in favor of the plaintiff by whatever means and under whatever law it arises or is created; (2) an obligation on the part of the named defendant to respect or not to violate such right; and (3) an act or omission on the part of such defendant violative of the right of the plaintiff or constituting a breach of the obligation of the defendant to the plaintiff.[13]

It bears stressing that it is only when the last element occurs that a cause of action arises. Accordingly, a cause of action on a written contract accrues only when an actual breach or violation thereof occurs.[14]

Applying the foregoing principle to the instant case, we rule that private respondent's cause of action accrued only on July 20, 1995, when its demand for payment of the Home Notes was refused by petitioner. It was only at

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that time, and not before that, when the written contract was breached and private respondent could properly file an action in court.

The cause of action cannot be said to accrue on the uniform maturity date of the Home Notes as petitioner posits because at that point, the third essential element of a cause of action, namely, an act or omission on the part of petitioner violative of the right of private respondent or constituting a breach of the obligation of petitioner to private respondent, had not yet occurred.

The subject Home Notes, in fact, specifically states that payment of the principal and interest due on the notes shall be made only upon presentation for notation and/or surrender for cancellation of the notes, thus:

> Payment of the principal amount and interest due on this Note shall be made by the Company at the principal office of the Trustee herein referred to or at such other office or agency that the Company may designate for the purpose, in such coin or currency of the Republic of the Philippines as at the time of payment shall be legal tender for payment of public and private debts, upon presentation for notation and/or surrender for cancellation of this Note. . . .[15] (Emphasis supplied.)

Thus, the maturity date of the Home Notes is not controlling as far as accrual of cause of action is concerned. What said date indicates is the time when the obligation matures, when payment on the Notes would commence, subject to presentation, notation and/or cancellation of those Notes. The date for computing when prescription of the action for collection begins to set in is properly a function related to the date of actual demand by the holder of the Notes for payment by the obligor, herein petitioner bank.

Since the demand was made only on July 20, 1995, while the civil action for collection of a sum of money was filed on September 24, 1996, within a period of not more than ten years, such action was not yet barred by prescription.

WHEREFORE, the petition is DENIED for lack of merit. The assailed Decision dated November 23, 2001, and the Resolution dated April 24, 2002, of the Court of Appeals are AFFIRMED. Costs against petitioner.

SO ORDERED.

Davide, Jr., C.J., (Chairman), Ynares-Santiago, Carpio, and Azcuna, JJ., concur.

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[1] Rollo, pp. 34-38. Penned by Associate Justice Buenaventura J. Guerrero, with Associate Justices Marina L. Buzon, and Alicia L. Santos concurring.

[2] Id. at 56-58.

[3] Id. at 40. Penned by Associate Justice Buenaventura J. Guerrero, with Associate Justices Roberto A. Barrios (vice Associate Justice Alicia L. Santos, retired), and Marina L. Buzon concurring.

[4] Id. at 81-90.

[5] Id. at 58.

[6] Id. at 37.

[7] Id. at 37-38.

[8] Id. at 234.

[9] ART. 1144. The following actions must be brought within ten years from the time the right of action accrues:

(1) Upon a written contract;
(2) Upon an obligation created by law;
(3) Upon a judgment.

[10] No. L-11633, 31 January 1961, 1 SCRA 366, 370.

[11] G.R. No. 95441, 16 December 1992, 216 SCRA 637, 644.

[12] Texon Manufacturing v. Millena, G.R. No. 141380, 14 April 2004, 427 SCRA 377, 380.

[13] Serrano v. Court of Appeals, G.R. No. 139420, 15 August 2001, 363 SCRA 223, 231.

[14] Lim Tay v. Court of Appeals, G.R. No. 126891, 5 August 1998, 293 SCRA 634, 655.

[15] Rollo, pp. 65-77.

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