

SPS. EDGAR AND DINAH OMENGAN, PETITIONERS, VS. PHILIPPINE NATIONAL BANK, HENRY M. MONTALVO AND MANUEL S. ACIERTO, RESPONDENTS.

G.R. NO. 161319. January 23, 2007

Ponente: CORONA, J.

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CORONA, J.:

This petition for review on certiorari[1] seeks a review and reversal of the Court of Appeals (CA) decision[2] and resolution[3] in CA-G.R. CV No. 71302.

In October 1996, the Philippine National Bank (PNB) Tabuk (Kalinga) Branch approved petitioners-spouses' application for a revolving credit line of P3 million. The loan was secured by two residential lots in Tabuk, Kalinga-Apayao covered by Transfer Certificate of Title (TCT) Nos. 12954 and 12112. The certificates of title, issued by the Registry of Deeds of the Province of Kalinga-Apayao, were in the name of Edgar[4] Omengan married to Dinah Omengan.

The first P2.5 million was released by Branch Manager Henry Montalvo on three separate dates. The release of the final half million was, however, withheld by Montalvo because of a letter allegedly sent by Edgar's sisters. It read:

7 November 1996

The Manager

Philippine National Bank

Tabuk Branch

Poblacion, Tabuk

Kalinga

Sir:

This refers to the land at Appas, Tabuk in the name of our brother, Edgar Omengan, which was mortgaged to [the] Bank in the amount of Three Million Pesos (P3,000,000.00), the sum of [P2.5 Million] had already been released and received by our brother, Edgar.

In this connection, it is requested that the remaining unreleased balance of [half a million pesos] be held in abeyance pending an understanding by the rest of the brothers and sisters of Edgar. Please be informed that the property mortgaged, while in the name of Edgar Omengan, is owned in co-ownership by all the children of the late Roberto and Elnora Omengan. The lawyer who drafted the document registering the subject property under Edgar's name can attest to this fact. We had a prior understanding with Edgar in allowing him to make use of the property as collateral, but he refuses to comply with such arrangement. Hence, this letter. (emphasis ours)

Very truly yours,

(Sgd.) Shirley O. Gamon (Sgd.) Imogene O. Bangao

(Sgd.) Caroline O. Salicob (Sgd.) Alice O. Claver[5]

Montalvo was eventually replaced as branch manager by Manuel Acierto who released the remaining half million pesos to petitioners on May 2, 1997. Acierto also recommended the approval of a P2 million increase in their credit line to the Cagayan Valley Business Center Credit Committee in Santiago City.

The credit committee approved the increase of petitioners' credit line (from P3 million to P5 million), provided Edgar's sisters gave their conformity. Acierto informed petitioners of the conditional approval of their credit line.

But petitioners failed to secure the consent of Edgar's sisters; hence, PNB put on hold the release of the additional P2 million.

On October 7, 1998, Edgar Omengan demanded the release of the P2 million. He claimed that the condition for its release was not part of his credit line agreement with PNB because it was added without his consent. PNB denied his request.

On March 3, 1999, petitioners filed a complaint for breach of contract and damages against PNB with the Regional Trial Court (RTC), Branch 25 in Tabuk, Kalinga. After trial, the court decided in favor of petitioners.

Accordingly, judgment is hereby rendered finding in favor of [petitioners.] [PNB is ordered]:

- 1) To release without delay in favor of [petitioners] the amount of P2,000,000.00 to complete the P5,000,000.00 credit line agreement;
- 2) To pay [petitioners] the amount of P2,760,000.00 representing the losses and/or expected income of the [petitioners] for three years;
- 3) To pay lawful interest, until the amount aforementioned on paragraphs 1 and 2 above are fully paid; and
- 4) To pay the costs.

SO ORDERED.[6]

The CA, however, on June 18, 2003, reversed and set aside the RTC decision dated April 21, 2001.[7]

Petitioners now contend that the CA erred when it did not sustain the finding of breach of contract by the RTC. [8]

The existence of breach of contract is a factual matter not usually reviewed in a petition filed under Rule 45. But since the RTC and the CA had contradictory findings, we are constrained to rule on this issue.

Was there a breach of contract? There was none.

Breach of contract is defined as follows:

[It] is the "failure without legal reason to comply with the terms of a contract." It is also defined as the "[f]ailure, without legal excuse, to perform any promise which forms the whole or part of the contract." [9]

In this case, the parties agreed on a P3 million credit line. This sum was completely released to petitioners who subsequently applied [10] for an increase in their credit line. This was conditionally approved by PNB's credit committee. For all intents and purposes, petitioners sought an additional loan.

The condition attached to the increase in credit line requiring petitioners to acquire the conformity of Edgar's sisters was never acknowledged and accepted by petitioners. Thus, as to the additional loan, no meeting of the

minds actually occurred and no breach of contract could be attributed to PNB. There was no perfected contract over the increase in credit line.

“[T]he business of a bank is one affected with public interest, for which reason the bank should guard against loss due to negligence or bad faith. In approving the loan of an applicant, the bank concerns itself with proper [information] regarding its debtors.”^[11] Any investigation previously conducted on the property offered by petitioners as collateral did not preclude PNB from considering new information on the same property as security for a subsequent loan. The credit and property investigation for the original loan of P3 million did not oblige PNB to grant and release any additional loan. At the time the original P3 million credit line was approved, the title to the property appeared to pertain exclusively to petitioners. By the time the application for an increase was considered, however, PNB already had reason to suspect petitioners’ claim of exclusive ownership.

A mortgagee can rely on what appears on the certificate of title presented by the mortgagor and an innocent mortgagee is not expected to conduct an exhaustive investigation on the history of the mortgagor’s title. This rule is strictly applied to banking institutions. xxx

Banks, indeed, should exercise more care and prudence in dealing even with registered lands, than private individuals, as their business is one affected with public interest. xxx Thus, this Court clarified that the rule that persons dealing with registered lands can rely solely on the certificate of title does not apply to banks.^[12] (emphasis supplied)

Here, PNB had acquired information sufficient to induce a reasonably prudent person to inquire into the status of the title over the subject property. Instead of defending their position, petitioners merely insisted that reliance on the face of the certificate of title (in their name) was sufficient. This principle, as already mentioned, was not applicable to financial institutions like PNB.

In truth, petitioners had every chance to turn the situation in their favor if, as they said, they really owned the subject property alone, to the exclusion of any other owner(s). Unfortunately, all they offered were bare denials of the co-ownership claimed by Edgar’s sisters.

PNB exercised reasonable prudence in requiring the above-mentioned condition for the release of the additional loan. If the condition proved unacceptable to petitioners, the parties could have discussed other terms instead of making an obstinate and outright demand for the release of the additional amount. If the alleged co-ownership in fact had no leg to stand on, petitioners could have introduced evidence other than a simple denial of its existence.

Since PNB did not breach any contract and since it exercised the degree of diligence expected of it, it cannot be held liable for damages.

WHEREFORE, the decision and resolution of the Court of Appeals in CA-G.R. CV No. 71302 are hereby AFFIRMED.

Costs against petitioners.

SO ORDERED.

Puno, C.J., (Chairperson), Sandoval-Gutierrez, Azcuna, and Garcia, JJ., concur.

[*] Montalvo and Acierto were made parties to the petition in their capacity as branch managers of PNB, Tabuk, Kalinga.

[1] Filed under Rule 45 of the Rules of Court.

[2] Penned by Associate Justice Eugenio S. Labitoria and concurred in by Associate Justices Andres B. Reyes, Jr. and Regalado E. Maambong of the Fifth Division of the Court of Appeals. Annex “A,” rollo, pp. 40-47.

[3] Annex “B,” rollo, p. 49.

[4] The CA Decision stated that the properties were registered in the name of “plaintiff-appellee Danilo Omengan xxx.” We assume that this was a mere typographical error and that the CA referred to Edgar since no other “Danilo” was mentioned in the records.

[5] Annex “A,” rollo, pp. 41-42.

[6] Annex “A,” rollo, p. 43.

[7] *Id.*, at 47.

[8] Petition, rollo, pp. 17-33.

[9] *Cathay Pacific Airways, Ltd. v. Sps. Vasquez*, 447 Phil. 306, 320 (2003). Citations omitted.

[10] Petition, rollo, p. 15.

[11] *United Coconut Planters Bank v. Ramos*, G.R. 147800, 11 November 2003, 415 SCRA 596, 609.

[12] *Heirs of Eduardo Manlapat v. Court of Appeals* G.R. No. 125585, June 8, 2005, 459 SCRA 412, 433. Citations omitted.

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