

**SPS. RAFAEL P. ESTANISLAO AND ZENaida ESTANISLAO, Petitioners,
vs. EAST WEST BANKING CORPORATION, Respondent.**

G.R. No. 178537. February 11, 2008

Ponente: YNARES-SATIAGO, J.

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YNARES-SATIAGO, J.:

This is a petition for review of the Decision[1] of the Court of Appeals dated April 13, 2007 in CA-G.R. CV No. 87114 which reversed and set aside the Decision of the Regional Trial Court of Antipolo City, Branch 73 in Civil Case No. 00-5731. The appellate court entered a new judgment ordering petitioners spouses Estanislao to pay respondent East West Banking Corporation P4,275,919.65 plus interest and attorney's fees. Also assailed is the Resolution[2] dated June 25, 2007 denying the motion for reconsideration.

The facts are as follows:

On July 24, 1997, petitioners obtained a loan from the respondent in the amount of P3,925,000.00 evidenced by a promissory note and secured by two deeds of chattel mortgage dated July 10, 1997: one covering two dump trucks and a bulldozer to secure the loan amount of P2,375,000.00, and another covering bulldozer and a wheel loader to secure the loan amount of P1,550,000.00. Petitioners defaulted in the amortizations and the entire obligation became due and demandable.

On April 10, 2000, respondent bank filed a suit for replevin with damages, praying that the equipment covered by the first deed of chattel mortgage be seized and delivered to it. In the alternative, respondent prayed that petitioners be ordered to pay the outstanding principal amount of P3,846,127.73 with 19.5% interest per annum reckoned from judicial demand until fully paid, exemplary damages of P50,000.00, attorney's fees equivalent to 20% of the total amount due, other expenses and costs of suit.

The case was filed in the Regional Trial Court of Antipolo and raffled to Branch 73 thereof.

Subsequently, respondent moved for suspension of the proceedings on account of an earnest attempt to arrive at an amicable settlement of the case. The trial court suspended the proceedings, and during the course of negotiations, a deed of assignment[3] dated August 16, 2000 was drafted by the respondent, which provides in part, that:

x x x the ASSIGNOR is indebted to the ASSIGNEE in the aggregate sum of SEVEN MILLION THREE HUNDRED FIVE THOUSAND FOUR HUNDRED FIFTY NINE PESOS and FIFTY TWO CENTAVOS (P7,305,459.52), Philippine currency, inclusive of accrued interests and penalties as of August 16, 2000, and in full payment thereof, the ASSIGNOR does hereby ASSIGN, TRANSFER and CONVEY unto the ASSIGNEE those motor vehicles, with all their tools and accessories, more particularly described as follows:

Make : Isuzu Dump Truck

x x x

Make : Isuzu Dump Truck

x x x

Make : x x x Caterpillar Bulldozer x x x

That the ASSIGNEE hereby accepts the assignment in full payment of the above-mentioned debt x x x.
(Emphasis supplied)

Petitioners affixed their signatures on the deed of assignment. However, for some unknown reason, respondent bank's duly authorized representative failed to sign the deed.

On October 6, 2000 and March 8, 2001, respectively, petitioners completed the delivery of the heavy equipment mentioned in the deed of assignment – two dump trucks and a bulldozer – to respondent, which accepted the same without protest or objection.

However, on June 20, 2001, respondent filed a manifestation and motion to admit an amended complaint for the seizure and delivery of two more heavy equipment – the bulldozer and wheel loader – which are covered under the second deed of chattel mortgage. Respondent claimed that its representative inadvertently failed to include the second deed of chattel mortgage among the documents forwarded to its counsel when the original complaint was being drafted. Respondent likewise claimed that petitioners were given a chance to submit a refinancing scheme that would allow them to keep the remaining two heavy equipment, but they failed to come up with such a scheme despite repeated promises to do so.

Respondent's amended complaint for replevin alleged that petitioners' outstanding indebtedness as of June 14, 2001 stood at P4,275,919.61 which is more or less equal to the aggregate value of the additional units of heavy equipment sought to be recovered. It also prayed that, in the event the two heavy equipment could not be replevied, petitioners be ordered to pay the outstanding sum of P3,846,127.73 with 19.5% interest per annum reckoned from January 24, 1998, compound interest, exemplary damages of P50,000.00, attorney's fees equivalent to 20% of the total amount due, other expenses and costs of suit.

Petitioners sought to dismiss the amended complaint. They alleged that their previous payments on loan amortizations, the execution of the deed of assignment on August 16, 2000, and respondent's acceptance of the three units of heavy equipment, had the effect of full payment or satisfaction of their total outstanding obligation which is a bar on respondent bank from recovering any more amounts from them. By way of counterclaim, petitioners sought the award of nominal damages in the amount of P500,000.00, moral damages in the amount of P500,000.00, exemplary damages in the amount of P500,000.00, attorney's fees, litigation expenses, interest and costs.

On March 14, 2006, the trial court dismissed the amended complaint for lack of merit. It held that the deed of assignment and the petitioners' delivery of the heavy equipment effectively extinguished petitioners' total loan obligation. It also held that respondent was estopped from further collecting from the petitioners when it accepted, without any protest, delivery of the three units of heavy equipment as full and complete satisfaction of the petitioners' total loan obligation. Respondent likewise failed to timely rectify its alleged mistake in the original complaint and deed of assignment, taking almost a year to act.

Respondent bank appealed to the Court of Appeals, which reversed the trial court's decision, the dispositive portion of which reads:

WHEREFORE, premises considered, the present appeal is hereby GRANTED. The Decision dated March 14, 2006 of the Regional Trial Court of Antipolo City, Branch 73 in Civil Case No. 00-5731 is hereby

REVERSED and SET ASIDE. A new judgment is hereby entered ordering the defendants-appellees to pay, jointly and severally, plaintiff-appellant East West Banking Corporation the sum of FOUR MILLION TWO HUNDRED SEVENTY FIVE THOUSAND NINE HUNDRED NINETEEN and 69/100 (P4,275,919.69) per Statement of Account as of June 14, 2001 (Exh. "E", Records, p.328) with interest at 12% per annum from June 15, 2001 until full payment thereof. Defendants-appellees are likewise ordered to pay the plaintiff-appellant attorney's fees in the sum equivalent to ten per cent (10%) of the total amount due.

No pronouncement as to costs.

SO ORDERED.[4]

The reversal of the lower court's decision hinges on: (1) the appellate court's finding that the deed of assignment cannot bind the respondent because it did not sign the same. The appellate court ruled that the assignment contract was never perfected although it was prepared and drafted by the respondent; (2) respondent was not estopped by its own declarations in the deed of assignment, because such declarations were the result of "ignorance founded upon an innocent mistake" and "plain oversight" on the part of respondent's staff in the bank's loan operations department, who failed to forward the complete documents pertaining to petitioners' account to the bank's legal department, such that when the original complaint for replevin was prepared, the second deed of chattel mortgage covering two other pieces of heavy equipment was inadvertently excluded; (3) petitioners are aware that there were five pieces of heavy equipment under chattel mortgage for an outstanding balance of over P7 million; and (4) the appellate court held that even after the delivery of the heavy equipment covered by the deed of assignment, the petitioners continued to negotiate with the respondent on a possible refinancing scheme that will enable them to retain the two other units of heavy equipment still in their possession and which are the subject of the second deed of chattel mortgage.

Petitioners argue that: a) the appellate court erred in ordering the payment of the principal obligation in a replevin suit which it erroneously treated as a collection case; b) the deed of assignment is binding between the parties although it was not signed by the respondent, constituting as it did an offer which they validly accepted; and c) the respondent is estopped from collecting or foreclosing on the second deed of chattel mortgage.

On the other hand, respondent argues that: a) the deed of assignment produced no legal effect between the parties for failure of the respondent to sign the same; b) the deed was founded on a mistake on its part because it honestly believed that only one chattel mortgage had been constituted to secure the petitioners' obligation; c) the non-inclusion of the second deed of chattel mortgage in the original complaint was a case of "plain oversight" on the part of the loan operations unit of respondent bank, which failed to forward to the legal department the complete documents pertaining to the petitioners' loan account; d) the continued negotiations in August 2001 between the parties, after delivery of the three units of heavy equipment, proves that petitioners acknowledged their continuing obligations to respondent under the second deed of mortgage; and, e) the deed of assignment did not have the effect of novating the original loan obligation.

The issue for resolution is: Did the deed of assignment – which expressly provides that the transfer and conveyance to respondent of the three units of heavy equipment, and its acceptance thereof, shall be in full payment of the petitioners' total outstanding obligation to the latter – operate to extinguish petitioners' debt to respondent, such that the replevin suit could no longer prosper?

We find merit in the petition.

The appellate court erroneously denominated the replevin suit as a collection case. A reading of the original and amended complaints show that what the respondent initiated was a pure replevin suit, and not a collection case. Recovery of the heavy equipment was the principal aim of the suit; payment of the total obligation was merely an

alternative prayer which respondent sought in the event manual delivery of the heavy equipment could no longer be made.

Replevin, broadly understood, is both a form of principal remedy and a provisional relief. It may refer either to the action itself, i.e., to regain the possession of personal chattels being wrongfully detained from the plaintiff by another, or to the provisional remedy that would allow the plaintiff to retain the thing during the pendency of the action and hold it *pendente lite*.^[5]

The deed of assignment was a perfected agreement which extinguished petitioners' total outstanding obligation to the respondent. The deed explicitly provides that the assignor (petitioners), "in full payment" of its obligation in the amount of P7,305,459.52, shall deliver the three units of heavy equipment to the assignee (respondent), which "accepts the assignment in full payment of the above-mentioned debt." This could only mean that should petitioners complete the delivery of the three units of heavy equipment covered by the deed, respondent's credit would have been satisfied in full, and petitioners' aggregate indebtedness of P7,305,459.52 would then be considered to have been paid in full as well.

The nature of the assignment was a dation in payment, whereby property is alienated to the creditor in satisfaction of a debt in money. Such transaction is governed by the law on sales.^[6] Even if we were to consider the agreement as a compromise agreement, there was no need for respondent's signature on the same, because with the delivery of the heavy equipment which the latter accepted, the agreement was consummated. Respondent's approval may be inferred from its unqualified acceptance of the heavy equipment.

Consent to contracts is manifested by the meeting of the offer and the acceptance of the thing and the cause which are to constitute the contract; the offer must be certain and the acceptance absolute.^[7] The acceptance of an offer must be made known to the offeror, and unless the offeror knows of the acceptance, there is no meeting of the minds of the parties, no real concurrence of offer and acceptance.^[8] Upon due acceptance, the contract is perfected, and from that moment the parties are bound not only to the fulfillment of what has been expressly stipulated but also to all the consequences which, according to their nature, may be in keeping with good faith, usage and law.^[9]

With its years of banking experience, resources and manpower, respondent bank is presumed to be familiar with the implications of entering into the deed of assignment, whose terms are categorical and left nothing for interpretation. The alleged non-inclusion in the deed of certain units of heavy equipment due to inadvertence, plain oversight or mistake, is tantamount to inexcusable manifest negligence, which should not invalidate the juridical tie that was created.^[10] Respondent is presumed to have maintained a high level of meticulousness in its dealings with petitioners. The business of a bank is affected with public interest; thus, it makes a sworn profession of diligence and meticulousness in giving irreproachable service.^[11]

Besides, respondent's protestations of mistake and plain oversight are self-serving. The evidence show that from August 16, 2000 (date of the deed of assignment) up to March 8, 2001 (the date of delivery of the last unit of heavy equipment covered under the deed), respondent did not raise any objections nor make any move to question, invalidate or rescind the deed of assignment. It was not until June 20, 2001 that respondent raised the issue of its alleged mistake by filing an amended complaint for replevin involving different chattels, although founded on the same principal obligation.

The legal presumption is always on the validity of contracts.^[12] In order to judge the intention of the contracting parties, their contemporaneous and subsequent acts shall be principally considered.^[13] When respondent accepted delivery of all three units of heavy equipment under the deed of assignment, there could be no doubt that it intended to be bound under the agreement.

Since the agreement was consummated by the delivery on March 8, 2001 of the last unit of heavy equipment under the deed, petitioners are deemed to have been released from all their obligations to respondent.

Since there is no more credit to collect, no principal obligation to speak of, then there is no more second deed of chattel mortgage that may subsist. A chattel mortgage cannot exist as an independent contract since its consideration is the same as that of the principal contract. Being a mere accessory contract, its validity would depend on the validity of the loan secured by it.[14] This being so, the amended complaint for replevin should be dismissed, because the chattel mortgage agreement upon which it is based had been rendered ineffectual.

WHEREFORE, the petition is GRANTED. The Decision of the Court of Appeals dated April 13, 2007 in CA-G.R. CV No. 87114 and its Resolution dated June 25, 2007 are hereby SET ASIDE. The March 14, 2006 decision of the Regional Trial Court of Antipolo, Branch 73, which dismisses Civil Case No. 00-5731, is hereby REINSTATED.

SO ORDERED.

Austria-Martinez, Corona, Nachura, and Reyes, JJ., concur.

* In lieu of Justice Minita V. Chico-Nazario, per Special Order No. 484 dated January 11, 2008.

[1] Rollo, pp. 51-71. Penned by Associate Justice Martin S. Villarama, Jr. and concurred in by Associate Justices Hakim S. Abdulwahid and Arturo G. Tayag.

[2] Id. at 73.

[3] Id. at 54.

[4] Id. at 71.

[5] BA Finance Corporation v. Court of Appeals, G.R. No. 102998, July 5, 1996, 258 SCRA 102, 110.

[6] CIVIL CODE, Art. 1245.

[7] Id., Art. 1319.

[8] Malbarosa v. Court of Appeals, G.R. No. 125761, April 30, 2003, 402 SCRA 168, 177.

[9] CIVIL CODE, Art. 1315.

[10] Fule v. Court of Appeals, G.R. No. 112212, March 2, 1998, 296 SCRA 698, 715.

[11] Solidbank v. Arrieta, G.R. No. 152720, February 17, 2005, 451 SCRA 711, 722.

[12] People's Aircargo and Warehousing Co., Inc. v. Court of Appeals, G.R. No. 117847, October 7, 1998, 297 SCRA 170, 189.

[13] Civil Code, Article 1371.

[14] Naguiat v. Court of Appeals, G.R. No. 118375, October 3, 2003, 412 SCRA 591, 599.

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