

CHINA BANKING CORPORATION, PETITIONER, VS. QBRO FISHING ENTERPRISES, INC., RESPONDENT.

G.R. No. 184556. February 22, 2012

Ponente: VILLARAMA, JR., J.

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VILLARAMA, JR., J.:

Petitioner China Banking Corporation appeals the June 27, 2008 Decision[1] and September 5, 2008 Resolution[2] of the Court of Appeals (CA) in CA-G.R. CV No. 00226 which set aside the Decision[3] of the Regional Trial Court (RTC) of General Santos City in Civil Case No. 6665.

The facts follow:

In 1994, Trans-Filipinas Realty Corporation (TFRC) obtained a loan from petitioner China Banking Corporation in the amount of Seven Million Pesos (P7,000,000). The loan was secured by a real estate mortgage over two parcels of land covered by Transfer Certificate of Title (TCT) Nos. T-34226 and T-34227. The credit line of TFRC was later increased to P14,000,000.[4]

On May 10, 1996, the Board of Directors of respondent QBRO Fishing Enterprises, Inc. issued a resolution[5] authorizing the mortgage of its properties to secure “the obligations incurred or which may [t]hereafter be incurred by [TFRC] with [petitioner] irrespective of the amount including any renewals, extensions and/or roll-overs thereof.”[6]

On June 3, 1996, respondent, represented by Armando Cesar A. Reyes and Concepcion R. Quintana, its president and treasurer, respectively, executed a real estate mortgage over nine parcels of land, covered by TCT Nos. T-38759 to T-38767, inclusive, as collateral for TFRC’s additional loan in the amount of P34,500,000.[7] The mortgage was annotated in the Registry of Deeds of General Santos City.

TFRC, however, defaulted on the payment of its obligation and failed to settle its account despite having received several demand letters from petitioner.[8] Thus, petitioner filed a petition for extrajudicial foreclosure of the real properties respondent and TFRC had mortgaged.[9] During the public auction, petitioner emerged as the highest bidder and was issued a Certificate of Sale.[10]

Aggrieved, respondent filed a Complaint[11] with the RTC to annul the real estate mortgage, foreclosure proceedings and auction sale. It alleged that petitioner unlawfully treated the TFRC and respondent’s separate loan accounts, which were secured by two different and separate real estate mortgages, as a single, inseparable account. Furthermore, respondent claimed that the loan in the amount of P34,500,000 had unilaterally ballooned to an unconscionable amount of P72,208,673.19, thus preventing TFRC from settling its obligation.

In its Answer,[12] petitioner denied that there were two separate loan accounts. It maintained that the real estate mortgage over respondent’s properties was executed to serve as additional security to accommodate TFRC’s request for an increase in its loan line. There being only one loan, petitioner asserted that the filing of a petition for extrajudicial foreclosure was proper.

After trial on the merits, the RTC dismissed respondent's complaint. The RTC found that while there were two mortgage contracts, the foreclosure of respondent's properties could not be set aside because to allow respondent to avoid liability based on the real estate mortgage over its properties would amount to unjust enrichment. The RTC noted, first, that the incorporators of TFRC and respondent are composed of the same persons. Second, it noted that respondent failed to act on its obligation to pay despite several demands from petitioner. Thus, the RTC ruled that foreclosure was petitioner's proper remedy, citing the case of *Valmonte v. Court of Appeals*,^[13] which held that "[t]he only condition the law requires in extrajudicial foreclosure is that the loan is already due and demandable and there was failure on the part of the mortgagor to pay the mortgage debt." Lastly, the RTC also noted that there was no merit to respondent's claim that the mortgage it signed was void for being irregular.^[14]

Not satisfied with the above RTC Decision, respondent appealed to the CA.^[15] The issues respondent raised were simplified by the appellate court as follows:

1. Whether or not the plaintiff-appellant and Trans-Filipinas Realty Corporation have separate and distinct personality from each other.
2. Whether or not it was proper for defendant-appellee bank to have merged and consolidated the respective loan accounts of plaintiff-appellant and Trans-Filipinas Realty Corporation, as well as the mortgaged properties into a single loan account and single mortgage, respectively, when defendant-appellee bank extrajudicially foreclosed the properties of both corporations.^[16]

On June 27, 2008, the CA promulgated the assailed Decision declaring the foreclosure proceedings with respect to respondent's properties null and void. The dispositive portion of the decision reads:

WHEREFORE, the Decision dated February 26, 2004 of the Regional Trial Court, 11th Judicial Region, Branch 23, General Santos City, in Civil Case No. 6665, is REVERSED and SET ASIDE. A new judgment is hereby ENTERED declaring the November 17, 1997 foreclosure proceedings NULL and VOID, with respect to the mortgaged properties of plaintiff-appellant QBRO Fishing Enterprises, Inc[.], to wit: TCT No. T-38759, TCT No. T-38760, TCT No. T-38761, TCT No. T-38762, TCT No. T-38763, TCT No. T-38764, TCT No. T-38765, TCT No. T-38766 and TCT No. T-38767. Furthermore, the Ex-Officio Sheriff of the Regional Trial Court of General Santos City is hereby DIRECTED to ISSUE an amended certificate of sale in the name of defendant-appellee China Banking Corporation, covering only the foreclosed properties of Trans-Filipinas Corporation, to wit: TCT No. T-34226 and TCT No. T-34227. Defendant-appellee China Banking Corporation's counterclaim before the trial court is hereby DISMISSED. No pronouncement as to costs.

SO ORDERED.^[17]

The CA ruled that respondent and TFRC are admittedly sister companies, having the same set of Board of Directors. However, it found that there was no allegation that their separate corporate entities were being used to defeat public convenience, justify wrong, protect fraud, or defend crime to disregard the separate juridical personality of a corporation. Moreover, the CA held that the fact that respondent agreed to mortgage its properties to secure the obligation of TFRC was not a valid reason for petitioner to consolidate the two loans and the real estate mortgages. The CA concluded that the foreclosure proceedings with respect to respondent's properties are null and void considering that there are two separate loans by different corporations.

Petitioner filed a motion for reconsideration.^[18] In a Resolution dated September 5, 2008, the CA denied the motion.

Petitioner elevated the case to us via the present petition for review on certiorari under Rule 45 of the 1997 Rules of Civil Procedure, as amended.

Petitioner argues that:

THE HONORABLE COURT OF APPEALS GRAVELY ERRED WHEN IT FAILED TO APPRECIATE THE FACT THAT THERE WAS ACTUALLY ONLY ONE (1) LOAN OBLIGATION BY TRANS-FILIPINAS REALTY CORPORATION, PAYMENT OF WHICH WAS PARTLY SECURED BY THE MORTGAGE OF QBRO FISHING ENTERPRISES, AS THIRD-PARTY MORTGAGOR, THUS, THERE BEING ONLY ONE OBLIGATION, ALBEIT SECURED BY TWO (2) MORTGAGES, ONLY ONE (1) FORECLOSURE THEREOF WAS LEGALLY SUFFICIENT.

THE HONORABLE COURT OF APPEALS GRAVELY ERRED IN ITS RULING WHEN IT FAILED TO APPRECIATE THE CORRECTNESS OF THE FORECLOSURE OF THE TWO (2) MORTGAGES WHERE BOTH MORTGAGORS WERE SPECIFICALLY NAMED AND IMPLEADED AS RESPONDENTS IN THE PETITION FOR EXTRA-JUDICIAL FORECLOSURE.[19]

The two issues to be resolved are: first, whether TFRC and respondent actually had two separate loan accounts and second, whether the petition for extrajudicial foreclosure is valid with respect to the mortgaged properties of respondent.

Petitioner argues that there was only one loan extended to TFRC and that respondent never had a credit line with it. It further contends that the CA erred in venturing into a non-issue, that is, the separate juridical personality of respondent and TFRC. Petitioner stresses that it in fact recognized that the two corporations were distinct corporate entities; otherwise, it would not have required prior authorization from respondent's board for the use of respondent's properties as security to increase TFRC's loan. Petitioner insists that respondent's role in the transaction was only as a third-party mortgagor. Hence, the single petition for extrajudicial foreclosure was valid.

On the other hand, respondent submits that the issues raised in the petition are a mere rehash of the issues which were already passed upon and discussed by the CA. Likewise, it points out that the issue of whether there was only a single loan account and not two is a question of fact as it involves the review of the evidence adduced. Such factual issue may not be raised in the present petition.

The petition is meritorious.

The principle is well-established that this Court is not a trier of facts. Therefore, in an appeal by certiorari under Rule 45 of the 1997 Rules of Civil Procedure, as amended, only questions of law may be raised. The resolution of factual issues is the function of the lower courts whose findings on these matters are received with respect and are, as a rule, binding on this Court.[20]

The foregoing rule, however, is not without exceptions. Findings of fact of the trial court and the CA may be set aside when such findings are not supported by the evidence or where the lower courts' conclusions are based on a misapprehension of facts.[21]

Here, we find that while there were indeed two different corporations that executed two separate mortgages, there was in fact only one loan account, that of TFRC. Respondent failed to offer evidence to prove that it had a separate loan account with petitioner. What is clear from the records is that respondent's Board of Directors specifically authorized the mortgage of its properties to serve as additional security to accommodate TFRC's request for the increase in its credit line. This is evidenced by the minutes of the Special Meeting of respondent's Board of Directors dated May 10, 1996, to wit:

RESOLVED as it is hereby resolved that the corporation be authorized and empowered to mortgage and encumber its parcel of land:

x x x x

of the Registry of Deeds of General Santos City for the purpose of securing the obligations incurred or which

may hereafter be incurred by TRANS-FILIPINAS REALTY CORPORATION with China Banking Corporation irrespective of the amount including any renewals, extensions and/or roll-overs thereof.[22]
[Emphasis ours.]

Undeniably, the real estate mortgage executed by respondent in favor of petitioner was intended to serve as additional security to accommodate the request of TFRC. Likewise, we note that petitioner's Executive Committee held a meeting on May 24, 1996, approving the loan requested by TFRC using the properties of respondent as collateral. A reading of the excerpts of the meeting further supports the contention of petitioner that there was only one obligation, thus:

Acting on a memorandum dated March 25, 1996, the Committee, upon motion duly made and seconded, approved the following credit facilities in favor of TFR [Trans-Filipinas Realty Corp.]:

A. Seven-year term loan ---- P20,000,000.00

x x x x

B. Loan Line --- P14,500,000.00

x x x x

under the following joint terms and conditions:

1. Real Estate Mortgage for 34.5 Million shall be executed by QBRO Fishing Enterprises, Inc. (QFE) for the account of TFR on nine lots totalling 3,870 sq.m. at I. Santiago Blvd., General Santos City under TCT Nos. T-38759 to T-38767, inclusive, with a total appraised value of P58.050 Million and loan value of (70%) P34.83 Million per appraisal report dated March 22, 1996.

x x x x[23] [Emphasis ours.]

As can be gleaned from the foregoing, there was indeed only one loan account with petitioner. It is also clear from the records that respondent does not have a separate credit line. When respondent mortgaged its properties described under TCT Nos. T-38759 to T-38767, inclusive, as security for the increase in the loan of TFRC, it bound itself as a third-party mortgagor.

It has been held that third persons who are not parties to the principal obligation may secure the latter by pledging or mortgaging their own property.[24] The fact that the loans were solely for the benefit of TFRC would not invalidate the mortgage with respect to respondent's property as long as valid consent was given. Thus, when respondent executed the real estate mortgage over its properties, such properties thereby secured the performance of the principal obligation notwithstanding the fact that respondent itself had not assumed any liability for the debt of TFRC.

We also note that on December 19, 1998, Armando Cesar Reyes, as President and General Manager of TFRC and respondent, wrote to petitioner requesting for an extension of the redemption period.[25] This is a clear indication that respondent recognized the rights of petitioner as mortgagee over the properties that were already foreclosed and sold to the highest bidder. Respondent, therefore, is already estopped from questioning the validity of the foreclosure sale by raising issue on whether its mortgaged properties should answer for the loan indebtedness of a separate corporate entity.[26]

All told, we find that the CA overlooked and misappreciated facts and circumstances on record clearly showing that respondent's role in the transaction was that of a third-party mortgagor who allowed its properties to be used as additional security for the loans obtained by TFRC. Considering that the extrajudicial foreclosure proceedings

initiated by petitioner pertain to only one loan account, we uphold the validity of the foreclosure sale which included the properties of respondent as third-party mortgagor.

WHEREFORE, the petition for review on certiorari is GRANTED. The June 27, 2008 Decision and the September 5, 2008 Resolution of the Court of Appeals in CA-G.R. CV No. 00226 are hereby REVERSED and SET ASIDE. The February 26, 2004 Decision of the Regional Trial Court, Branch 23, of General Santos City in Civil Case No. 6665 is REINSTATED.

No costs.

SO ORDERED.

Corona, C.J., (Chairperson), Leonardo-De Castro, Bersamin, and Perlas-Bernabe,[*] JJ., concur.

[*] Designated additional member per Special Order No. 1203 dated February 17, 2012.

[1] Rollo, pp. 10-25. Penned by Associate Justice Elihu A. Ybañez, with Associate Justices Romulo V. Borja and Mario V. Lopez concurring.

[2] Id. at 27-28.

[3] Id. at 125-127. Penned by Presiding Judge Jaime V. Quitain. The decision is dated February 26, 2004.

[4] Id. at 86.

[5] Id. at 95-98.

[6] Id. at 97.

[7] Id. at 107-113.

[8] Exhibits for the defendants in Civil Case No. 6665, pp. 16-35.

[9] Rollo, pp. 116-120.

[10] Id. at 121-123.

[11] Records, pp. 1-8.

[12] Id. at 44-54.

[13] G.R. No. 41621, February 18, 1999, 303 SCRA 278, 293.

[14] Rollo, pp. 125-126.

[15] Records, p. 165.

[16] CA rollo, p. 114.

[17] Rollo, pp. 23-24.

[18] CA rollo, pp. 143-156.

[19] Rollo, p. 41.

[20] McKee v. Intermediate Appellate Court, G.R. Nos. 68102-03, July 16, 1992, 211 SCRA 517, 537.

[21] Id.

[22] Rollo, pp. 95-97.

[23] Id. at 105-106.

[24] Vda. de Jayme v. Court of Appeals, G.R. No. 128669, October 4, 2002, 390 SCRA 380, 389, citing Article 2085 of the Civil Code.

[25] Rollo, p. 124.

[26] See Valmonte v. Court of Appeals, *supra* note 13, at 290.

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