

ASTRID A. VAN DE BRUG, MARTIN G. AGUILAR AND GLENN G. AGUILAR, PETITIONERS, VS. PHILIPPINE NATIONAL BANK, RESPONDENT.*G.R. No. 207004. June 06, 2018*Read online (full-text search, related cases, audio case brief): <https://batas.org/library/g-r-no-207004/>**CAGUIOA, J:**

Before the Court is a petition[1] for review (Petition) under Rule 45 of the Rules of Court assailing the Decision[2] of the Court of Appeals[3] (CA) dated March 23, 2012 in CA-G.R. CV No. 00708, which granted the appeal of the respondent Philippine National Bank (PNB) and reversed the Decision[4] dated December 10, 2004 of the Regional Trial Court, 6[th] Judicial Region, Branch 58, San Carlos City, Negros Occidental (RTC) in Civil Case No. RTC-725 in favor of the petitioners. Likewise, the Resolution[5] of the CA[6] dated April 1, 2013, denying the petitioners' motion for reconsideration, is being assailed.

Facts and Antecedent Proceedings

The CA Decision states the following facts as culled from the records:

The late spouses Romulus[7] and Evelyn[8] Aguilar [the late spouses Aguilar] used to be borrowing clients of x x x Philippine National Bank [PNB], Victoria Branch x x x. The late [spouses Aguilar's] sugar crop loans, which were obtained sometime between the late 1970's and the early 1980's, were secured by real estate mortgage over four registered parcels of land, namely: residential Lot No. 3, Block 13, situated in Sagay, Negros Occidental [with an area of 342 square meters[9], and agricultural Lots No[s]. 3587 [with an area of 225,594 square meters[10]], 3588 [with an], area of 19,283 square meters[11]] and 3749 [with an area of 181,935 square meters[12]], all situated at Escalante, Negros Occidental. However, for failure of the late spouses Aguilar to pay their obligations with [PNB], the mortgage was foreclosed in 1985 and subsequently, ownership of the subject four pieces of property was consolidated under the name of [PNB].

With the enactment of RA 7202 on February 29, 1992, the late Romulus Aguilar wrote [PNB] on July 5, 1995, and he stated: "Since our indebtedness with the PNB had been foreclosed, we are asking your good Office for a reconsideration of our account based on the Sugar Restitution Law." After the death of Romulus Aguilar, his spouse, the late Evelyn Aguilar, received a letter from [PNB] dated September 17, 1997, during which occasion [PNB] informed the late Evelyn Aguilar that while the subject loan account was covered by the provisions of RA 7202 and have been audited by the Commission on Audit (COA), the late Evelyn Aguilar was still required to comply with the following matters: (1) to arrange and implement restructuring of accounts within sixty (60) days from receipt of the notice, (2) to signify her conformity to the computation of the account, and (3) to submit the ten (10) year crop production for the period 1974/1975 to 1984/1985.

Plaintiffs-appellees Aguilar [the Aguilars] claimed that they complied with the stated requirements, and that subsequently, [PNB] furnished them [with] Statements of Account, the earliest of which was the COA audited statement as of December 15, 1996 and the latest was as of November 30, 1999, which reflected a P2,236,337.91 total amount due.

[Based on Statement of Account as of November 30, 1999,[13] the accounts of the Aguilars with the PNB

were computed as follows:

1. RA 7202 Accounts

P1,043,656.36 (total principal of P270,351.62 plus 12% interest per annum amounting to P773,304.74, without penalty)

2. Non-RA 7202 Accounts

P1,192,681.55 (total principal of P212,054.25 plus interest at regular rate amounting to P829,304.12, with penalty of P151,323.18.)[14]

Further, [the Aguilars] adduced that inasmuch as the subject agricultural [lots] were already conveyed voluntarily by [PNB] to the Department of Agrarian Reform (DAR), they were advised by [PNB] to follow-up the payment for these pieces of realty with the Land Bank of the Philippines (LBP) in order for [PNB] to apply the proceeds of the sale to the account of the late spouses Aguilar. According to [the Aguilars], they were likewise assured by [PNB] that if the proceeds from LBP would exceed the obligations of the late spouses Aguilar, the excess amount would be returned to [the Aguilars], including the subject residential property. On December 21, 1998, LBP issued the Memorandum of Valuation of agricultural Lot No. 3749 for P1,254,328.17, and on November 23, 1999, for agricultural Lot No. 3587 in the amount of P1,957,684.31.

Following the November 23, 1999 Memorandum of Valuation, [the Aguilars] requested [PNB] to commence restructuring of the loan account, and on three occasions, i.e., February 8, 2000, March 15, 2000 and April 24, 2000, one of the children of the late spouses Aguilar, x x x Glenn Aguilar, in behalf of his siblings x x x Astrid Van de Brug and Martin Aguilar, wrote [PNB] and asked that they be accorded the benefits of RA 7202. Through his letters, x x x Glenn Aguilar also made mention of an allegedly similar case, docketed as Civil Case No. 7212 entitled Sps. Fred and Mildred Pfeider vs. PNB, et al., then pending before RTC, Branch 45, Bacolod City, wherein [PNB] purportedly entered into a compromise agreement with Sps. Pfeider, notwithstanding consolidation of the foreclosed property under the bank's name.

On September 22, 2000, [PNB] replied in writing and stated, among other matters, that: "Since PNB has already acquired the properties at the foreclosure sale, it can now exercise its rights as owner of these properties, including the right to convey the same to the DAR and to receive the proceeds thereof from Land Bank of the Philippines, without any right to the excess proceeds, if any, inuring/accruing to your favor."

Hence, the case for implementation of RA 7202, with prayer for payment of P200,000.00 moral damages, P200,000.00 exemplary damages, P100,000.00 attorney's fees plus P1,500.00 fee per appearance and P25,000.00 litigation expenses, was filed by [the Aguilars] on January 3, 2001.

For its part, [PNB] emphasized that [the Aguilars] failed to comply with the requirements enumerated based on its September 17, 1997 letter. Hence, [PNB] argued that [the Aguilars] have no cause of action against [PNB] because whatever rights [the Aguilars] have under RA 7202 were already forfeited when they failed to comply with the requirements.

The non-compliance by [the Aguilars] of the requirements was confirmed by the Chief of [PNB's] Loans Department, x x x Edgardo Miraflor. While x x x Miraflor admitted that x x x Glenn Aguilar tried to negotiate with [PNB] for the restructuring of the account of the late spouses Aguilar under RA 7202, [the Aguilars] did not formally signify their conformity to [PNB's] recomputation of the account as of December 15, 1996, which was audited and certified by the COA. Neither did [the Aguilars] dispute the COA audited recomputation which disclosed that after recomputation based on the provisions of RA 7202, there was no excess payment on the account of the late spouses Aguilar. x x x Miraflor continued to add that while it was true that it was x x x Glenn Aguilar who followed up the status of LBP's payment of the subject agricultural lands which were already conveyed to the DAR, and that he advised x x x Glenn Aguilar to likewise negotiate with [PNB's] Bacolod Business Center, x x x Miraflor was subsequently notified by the Bacolod Business Center that

pursuant to Department of Justice (DOJ) Opinion No. 91, Series of 1995, the foreclosed pieces of property of [the Aguilars], which were already consolidated under the name of [PNB], could no longer be returned to them.

[PNB] further contended that [the Aguilars] cannot invoke the compromise agreement it entered into with Sps. Fred and Mildred Pfeider in Civil Case No. 7212 because [the Aguilars] were not parties to the case.

By way of counterclaim, [PNB] prayed for P100,000.00 moral damages, P100,000.00 exemplary damages, attorney's fees and litigation expenses.

During the rebuttal stage, x x x Glenn Aguilar claimed that [the Aguilars] did not sign the restructuring agreement primarily because of the exclusion of the value of the agricultural lands, which were already conveyed to the DAR, in the recomputation of the account of the late spouses Aguilar.

After hearing, the [RTC] rendered the assailed Decision, the decretal portion whereof reads:

"WHEREFORE, in view of the foregoing, judgment is hereby rendered dismissing the Defendant's counterclaim and ordering judgment in favor of the Plaintiffs and against the Defendant as follows:

- To accord the Plaintiffs the benefits of R.A. 7202 and in particular to credit to the Plaintiffs' account the proceeds from the VOS[15] of the agricultural properties heretofore described as Lots 3585, 3749 and 3588, located at Escalante City, Negros Occidental, with the excess thereof being delivered to the Plaintiffs or the shortfall to be paid by the Plaintiffs in thirteen (13) years with interest provided for by R.A. 7202, and upon full payment of the account to return to the [P]laintiffs the title to and ownership of the abovementioned residential lot, Lot No. 3, Block 13, of the subdivision plan Psd-33419, Sagay Cadastre, now covered by TCT No. T-203;

- Ordering the [D]efendants (sic) to pay [the] [P]laintiffs P100,000.00 moral damages, P50,000.00 exemplary damages, P50,000.00 attorney's fees and litigation expenses of P10,000.00 and to pay the costs.

SO ORDERED."[16]

The RTC justified the reconveyance or restitution of the residential lot in Sagay City to the Aguilars by crediting in their favor the proceeds of the Voluntary Offer to Sell (VOS) to the Department of Agrarian Reform (DAR) of the two agricultural lots, which "reached to more than Three Million Pesos[;] and in applying the proceeds thereof to the payment of their accounts, said outstanding account [would] be fully paid and in addition to that [PNB] would still be obligated to return the balance thereof which is more than P900,000.00 to the [Aguilars]."[17]

As to the Opinion of the Secretary of Justice, to the mind of the RTC, it refers only to foreclosed properties which, thru public auction, the ownership thereof has passed to third persons.[18] According to the RTC, it does not apply to the instant case because the subject foreclosed properties' ownership has not passed to third persons but only to another government agency that is also mandated to implement Republic Act No. (RA) 7202[19] or the Sugar Restitution Law.[20]

The RTC justified the judgment in favor of the Aguilars as in keeping with public policy behind RA 7202, which "was passed as a sort of social legislation and an urgent measure to uplift the plight of sugar producers who were put to a great disadvantage, thus they suffered damages, among which are non-payment of the sugar crop loans that led to foreclosure of their collaterals thereof mainly 'due to actions taken by government agencies and in order to revive the economy in the sugar-producing areas of the country',"[21] thus:

In plain and simple language what [PNB] has done in denying to the [Aguilars] the benefits of the Sugar Restitution Law is against the spirit that created the said Law, i.e. to help the sugar producers, the [Aguilars] herein included, who suffered due to the acts of government agencies.[22]

The RTC found PNB guilty of malice and bad faith in not pursuing its duty in helping the Aguilar avail of the benefits of RA 7202 and, pursuant to Articles 19 and 21 of the Civil Code, justified the award of moral and exemplary damages as well as attorney's fees and litigation expenses in favor of the Aguilar.[23]

Aggrieved by the RTC Decision, PNB appealed to the CA. The CA granted the appeal and reversed the RTC Decision.[24] In applying RA 7202, the CA found that the account of the late spouses Aguilar qualified under the law because indisputably, their sugar crop loans were obtained within the period covered by the law.[25] However, based on PNB's recomputation applying 12% per annum interest, which was audited and certified by the Commission on Audit (COA), the Aguilar were not entitled to restitution absent any excess payment after recomputation.[26] The CA did not credit the proceeds of the VOS to the DAR in favor of the Aguilar, but it in effect considered the account of the late spouses Aguilar as having been fully paid "through foreclosure of collateral" pursuant to Section 6 of the Rules and Regulations Implementing RA 7202 (IRR).[27]

The dispositive portion of the CA Decision states:

WHEREFORE, premises considered, the APPEAL is hereby GRANTED. Accordingly, the Decision appealed from is hereby REVERSED, and the Complaint for implementation of Republic Act (RA) No. 7202, otherwise known as the Sugar Restitution Law, docketed as Civil Case No. RTC-725, is hereby DISMISSED.

SO ORDERED.[28]

The Aguilar filed a Motion for Reconsideration,[29] which was denied by the CA in its Resolution[30] dated April 1, 2013.

The Aguilar filed their Petition with the Court. PNB filed its Comment[31] dated October 9, 2013, to which the Aguilar filed a Reply[32] dated October 22, 2013. PNB filed its Memorandum[33] dated August 8, 2014 and the Aguilar filed their Memorandum[34] dated September 29, 2014.

Issue

Based on the Petition, the sole issue is whether the CA erred in not including the sums and amounts which accrued to PNB from DAR's payment on account of the properties of the Aguilar.[35]

The Court's Ruling

At the core of the instant case is RA 7202, which was approved on February 29, 1992, and its declared policy is "to reconstitute the losses suffered by the sugar producers due to actions taken by government agencies in order to revive the economy in the sugar-producing areas of the country." [36]

As to the institutions covered, Section 3 of RA 7202 provides:

SEC. 3. The Philippine National Bank, the Republic Planters Bank, the Development Bank of the Philippines and other government-owned and controlled financial institutions which have granted loans to the sugar producers shall extend to accounts of said sugar producers incurred from Crop Year 1974-1975 up to and including Crop Year 1984-1985 the following:

(a) Condonation of interest charged by the banks in excess of twelve percent (12%) per annum and all penalties and surcharges;

(b) The recomputed loans shall be amortized for a period of thirteen (13) years inclusive of a three-year grace period on principal effective upon the approval of this Act. The principal portion of the loan will carry an interest rate of twelve percent (12%) per annum and on the outstanding balance effective when the original promissory notes were signed and funds released to the producer.

Section 4 of RA 7202 provides which accounts of sugar producers are covered, thus:

SEC. 4. Accounts of sugar producers pertaining to Crop Year 1974-1975 up to and including Crop Year 1984-1985 which have been fully or partially paid, or may have been the subject of restructuring and other similar arrangements with government banks shall be covered by the provisions abovestated. The benefit of this Act shall not be extended to any sugar producer with a pending sequestration or ill-gotten wealth case before any administrative or judicial body. Any recovery shall be placed in escrow until the case has been finally resolved.

On the other hand, the IRR promulgated by the Bangko Sentral ng Pilipinas[37] (BSP) provides:

Sec. 4

For sugar producers who obtained loans from the lending banks during the period covered, the benefits provided herein shall be extended to those whose loans at the time of the effectivity of the Act:

a.

Are still outstanding; or

b.

Had been partially or fully paid, whether in cash, from proceeds of sale of assigned sugar quedans, through dacion en pago, or by way of execution against assets of the sugar producer other than the loan collaterals; or

c.

Had been subjected to foreclosure of loan collaterals whether or not the foreclosure is a subject of litigation; or

d.

Had been transferred or assigned to other government-owned and -controlled agencies or institutions; or

e.

Had been the subject of restructuring or other similar arrangements, whether with the lending bank or with their assignees or transferees.[38]

Based on the foregoing, the entitlement of the Aguilar to the benefits of RA 7202 has been correctly recognized by the CA, viz.:

In essence, the issue that [the CA] needs to resolve is whether or not [the Aguilar] were entitled to the benefits of RA 7202. Nevertheless, [the CA] finds it vital to primarily establish whether the account of [the Aguilar's] predecessors-in-interest, the late spouses Aguilar, was qualified under RA 7202.

x x x x

Based on the foregoing provisions, it appeared that the account of the late spouses Aguilar qualified under RA 7202 since indisputably, the sugar crop loans of the late spouses Aguilar, which were considered fully paid upon foreclosure of the mortgaged pieces of property, were obtained within the period covered by the law.

x x x x

Succinctly, the sugar producer concerned was entitled to the benefit of recomputation of his loan account, and if warranted, to restitution of any excess payment on interests, penalties and surcharges, pursuant to Section 3 of RA 7202.[39]

Indeed, the late spouses Aguilar had accounts[40] that were covered by RA 7202. The subject crop loans of the

late spouses Aguilar were "obtained sometime between the late 1970's and the early 1980's." [41]

Now that certain accounts of the late spouses Aguilar have been established to be covered by RA 7202, the next question would be: what benefits does the law confer upon the Aguilars?

As provided in Section 3 of RA 7202, quoted above, and Section 6 of the IRR, quoted below, the Aguilars are entitled to: (1) condonation of interest charged in excess of 12% per annum and all penalties and surcharges; (2) recomputation of their sugar crop loans, and if there is interest in excess of 12% per annum, interests, penalties and surcharges, application of the excess payment as an offset and/or as payment for the late spouses Aguilar's outstanding loan obligations; and (3) restructuring or amortization of the recomputed loans for a period of 13 years inclusive of a three-year grace period on the principal, effective upon the approval of RA 7202.

The CA found that PNB recomputed the RA 7202 accounts of the late spouses Aguilar, which were audited and certified by the COA, and the recomputation resulted in the absence of any excess payment, viz.:

Indeed, [PNB] recomputed the account of the late spouses Aguilar based on 12% per annum interest rate, and the recomputation was audited and certified by the COA. Yet, the result of the recomputation, as reflected on the COA audited Statement of Account, and on the attached computation sheets, as of December 15, 1996, revealed:

Releases/Accounts

Principal

(a)

Actual Interest Payment

(b)

Recomputed Interest at 12% p.a.

(c)

Excess Payment (a-b=c)

1975/76

P146,979.37

P11,893.55

P382,459.36

-0-

1976/77

95,372.25

764.67

238,103.64

-0-

1976/77

28,000.00

.00

69,381.52

-0-

TOTAL

P270,351.62

P12,658.22

P689,944.52

-0-

Seemingly, absent any excess payment after the recomputation of the account of the late spouses Aguilar based on 12% per annum interest rate, pursuant to Section 9 of the Rules and Regulations Implementing RA 7202 vis-a-vis Section 3 of RA 7202, [the Aguilars] were not entitled to restitution under RA 7202.[42]

Based on the foregoing, the CA denied the Aguilars' entitlement to restitution. The CA justified its computation based on Sections 6, 7 and 9(b) of the IRR, to wit:

"SECTION 6. E.O. 31,[43] as amended by E.O. 114[44] provides as follows:

x x x x

'SECTION 2. In cases, however, where sugar producers have no outstanding loan balance with said financial institutions as of the date of effectivity of RA No. 7202 (i.e. sugar producers who have fully paid their loans either through actual payment or foreclosure of collateral, or who have partially paid their loans and after the recomputation of the interest charges, they end up with excess payment to said financial institutions), said producers shall be entitled to the benefits of recomputation in accordance with Sections 3 and 4 of RA No. 7202, but the said financial institutions, instead of refunding the interest in excess of twelve (12%) per cent per annum, interests, penalties and surcharges, apply the excess payment as an offset and/or as payment for the producers' outstanding loan obligations. Applications of restructuring banks under Section 6 of RA No. 7202 shall be filed with the Central Monetary Authority of the Philippines within one (1) year from application of excess payment.'

x x x x

"SECTION 7. Lending banks shall recompute the outstanding loans at twelve percent (12%) simple interest per annum based on the original promissory notes and shall condone interest in excess of twelve per cent (12%) and all penalties and surcharges that were not paid. Excess interest and all penalties and surcharges which had been paid shall be applied against the outstanding loan obligations of the sugar producers in accordance with Section 6 of these Implementing Rules. x x x

x x x x

"SECTION 9. The following sugar producers shall be entitled to restitution:

[a.

Those have no loan accounts with the lending banks but have suffered trading losses; and]

b.

Those who borrowed from the lending banks as enumerated in Section 4 of these Implementing Rules and have net excess payments after recomputation of their loans as defined in Section 2.k[45] and application of excess

interest, penalties and surcharges against their other outstanding loan obligations in accordance with Section 6 of these Implementing Rules. x x x"[46] (Additional emphasis and underscoring supplied)

The above computation of the CA appears to be in accord with the above quoted provisions of the IRR.

As defined under Section 2.p of the IRR, "EXCESS PAYMENT shall mean the overage of the excess interest as defined in Section 2.n and penalties and surcharges as defined in Section 2.o after applying them against the outstanding loan balance appearing in the books of the lending banks."[47] Section 2.n provides: "EXCESS INTEREST shall mean interest charged and/or collected by the lending bank over and above the twelve percent (12%) interest per annum on the amount of the principal of loan as defined in Section 2.k as such amount is determined from the original promissory note" while Section 2.o provides: "PENALTIES AND SURCHARGES shall mean all penalties and surcharges charged and/or collected by the lending bank."[48]

Pursuant to the IRR definition of terms, there appears to be no excess interest with respect to the RA 7202 accounts of the late spouses Aguilar because the actual interest payment or interest collected amounted to only P12,658.22, as of December 15, 1996, while the recomputed interest at 12% per annum totaled P689,944.52. Thus, with the actual interest collected not being more than the recomputed interest of the principal of the loans of the late spouses Aguilar covered by RA 7202 (amounting to P270,351.62),[49] there could be no excess payment and there would be no amount that could be restituted to the Aguilars. This is clear from Section 9 of the IRR wherein [only] sugar producers who have net excess payments after recomputation of their loans and application of excess interests, penalties and surcharges against their outstanding loan obligations shall be entitled to restitution.

On the matter of restitution, the IRR further provides:

Sec. 13

Sugar producers with foreclosed collaterals which are covered by the CARL shall also be entitled to restitution from the Sugar Restitution Fund and/or recomputation, condonation and restructuring.[50]

As defined by the IRR, "SUGAR RESTITUTION FUND shall refer to the ill-gotten wealth recovered by the Government through the PCGG[51] or any other agency or from any other source within the Philippines or abroad, and whatever assets or funds that may be recovered, or already recovered, which have been determined by PCGG or any other competent agency of the Government to have been stolen or illegally acquired from the sugar industry whether such recovery be the result of a judicial proceeding or by a compromise agreement."[52]

To be clear, sugar producers, who were entitled to restitution, were given a period of 180 calendar days from the effectivity of the IRR to file their claims for restitution of sugar losses with the BSP.[53]

Based on their Petition, the computation of the CA is disputed by the Aguilars because it did not "include the sums and amounts which accrued to [PNB] from DAR's payment on account of[their] properties."[54]

The Aguilars take the position that the total amount of P3,212,012.48, which PNB received from the Land Bank of the Philippines (LBP) based on the Memorandum of Valuation of Lot 3587 located at Magsaysay, Escalante City fixing the lot's value at P1,957,684.31[55] and the Memorandum of Valuation of Lot 3749 located at Pinapugasan, Escalante City fixing the lot's value at P1,254,328.17[56] pursuant to PNB's VOS to DAR of the said lots, should be deducted from their total outstanding loan obligations (for RA 7202 and non-RA 7202 accounts) in the amount of P2,236,337.91 as of the date of foreclosure of the collaterals as per Statement of Account marked Exhibit "G."[57] If their position is upheld, there would be an overage of P975,674.57, which should be returned to them by the terms of the IRR.[58] The Aguilars further claim that since two out of the four mortgaged lots are already enough to cover their outstanding loan balance and there is even an excess, then the

other lots, in particular the residential land which is obviously not covered by the Comprehensive Agrarian Reform Program (CARP), should be restored to their possession and ownership.[59]

To this Court, this position of the Aguilar cannot be justified under RA 7202 and its IRR. To recall, Section 6 of the IRR, in part, provides that:

x x x where sugar producers have no outstanding loan balance with said financial institutions as of the date of effectivity of RA No. 7202 (i.e. sugar producers who have fully paid their loans x x x through x x x foreclosure of collateral x x x), said producers shall be entitled to the benefits of recomputation in accordance with Sections 3 and 4 of RA No. 7202, but the said financial institutions, instead of refunding the interest in excess of twelve (12%) per cent per annum, interests, penalties and surcharges, apply the excess payment as an offset and/or as payment for the producers' outstanding loan obligations. x x x[60] (Emphasis supplied; underscoring omitted)

And, based on PNB's recomputation which the CA upheld, there is no excess payment made by the late spouses Aguilar that has to be restituted to the Aguilar.

The Aguilar further implore the Court, as they did unsuccessfully with the CA, to compel PNB to extend to them the accommodation that PNB made with spouses Frederick[61] and Mildred Pfeider (the spouses Pfeider) wherein in the Restructuring and Compromise Agreement[62] (Compromise Agreement) that PNB entered into with the spouses Pfeider in Civil Case No. 7212 before Branch 45 of the RTC of Bacolod City,[63] PNB credited in favor of the spouses Pfeider the value of their agricultural lots that PNB had also foreclosed and transferred via VOS to DAR.[64] The Aguilar argue that "[they] are similarly circumstanced as the Pfeiders[,] [and] [t]here was no reason for PNB to treat [them] differently." [65]

PNB counters that RA 7202 "does not provide for the reconveyance of the foreclosed property lies to the qualified sugar producers" and "[w]hat the qualified sugar producers with foreclosed property/ies were entitled to under R.A. No. 7202 was for the recomputation of their loan account and if there were any excess payment/s, to claim with the x x x BSP x x x for restitution." [66] PNB also posits that the foreclosure of the subject agricultural lots was done before the effectivity of RA 7202 and when they were subjected to the CARP, PNB, being then the landowner/claimant, had the right to claim and receive the CARP proceeds thereof.[67]

PNB cites DOJ Opinion No. 91, Series of 1995[68] (DOJ Opinion) where former DOJ Secretary Teofisto T. Guingona, Jr. opined that:

x x x While the effect of Section 3 is to forestall foreclosure of mortgaged properties, the provision does not in terms undo foreclosure sales already consummated as of the effectivity of R.A. No. 7202. And rightly so, because property rights have already vested after a consummated foreclosure sale which the law (R.A. No. 7202) cannot disturb without violating the constitutional guaranties of due process and non-impairment of contracts clause.[69]

PNB likewise cites that for purposes of recomputation under RA 7202, CARP proceeds of foreclosed properties are not categorized as among the "LOAN PAYMENTS" to be credited to the loan accounts of borrowers; and it is the "value realized or credited to payment of the sugar producer's loan account from properties acquired thru x x x foreclosure of collaterals" that is part of "LOAN PAYMENTS" pursuant to Section 2.1 of the IRR.[70]

In addition, PNB contends that the Aguilar are not similarly situated with the spouses Pfeider based on the following:

x x x In deference to [s]pouses Pfeider, they first gave their conformity to the recomputation made by PNB (as audited by COA) on their loan accounts without crediting therein as loan payments the value of the CARP proceeds of the agricultural lots, converse to the demands of [the Aguilar].

x x x After recomputation of the crop loans and the condonation of interest in excess of x x x 12% x x x per annum, as well as penalties and surcharges, [s]pouses Pflieger confirmed and acknowledged as accurate, in all respect, the recomputed loan balance on their loans x x x[.]

x x x Thereafter, [s]pouses Pflieger signed the Restructuring and Compromise Agreement with PNB based on the amount of the recomputation made by the latter. Thus, [s]pouses Pflieger were allowed to restructure their account for a period of x x x 13 x x x years. In this regard, PNB agreed that the value of the Escalante lots (agricultural properties) transferred by PNB to DAR, would be deducted from the aggregate amount due on the loans upon settlement by DAR and/or LBP of the reasonable and just compensation due PNB for the transfer to the Republic of the Philippines of the titles over said lots.

x x x Here, petitioner Glenn Aguilar admitted that he did not signify his conformity to the re-computation as audited and certified to by COA and refused to sign the restructuring agreement because he was insisting that the CARP proceeds be first considered as loan payments and should be deducted from the loan accounts.

x x x x

x x x It must also be noted that if the CARP proceeds are to be credited to [the late] [s]pouses Aguilar's loan account in the recomputation, then, the restructuring agreement is no longer needed as the CARP proceeds are more than enough to cover the net loan balance. If this is allowed, there is nothing left to amortize. This is not the case of [s]pouses Pflieger from which [the Aguilars] sought same consideration. Definitely, [the Aguilars'] demand is far different from the circumstances obtaining insofar as the [s]pouses Pflieger are concerned, and in that case, there is no sound reason to consider the case of the latter in the instant petition.[71]

Citing Articles 19 and 21 of the Civil Code, the RTC found that PNB was "guilty of malice and bad faith in not pursuing its duty in helping [the Aguilars] avail of the benefits of said Sugar Restitution Law"[72] and awarded P100,000.00 moral damages. The RTC further noted that:

[The Aguilars] also correctly cited the identical case of the Spouses Fred and Mildred Pflieger which the defendant gave due course. While it is true that [the Aguilars] are not parties to the case nor signatories to their Compromise Agreement and [PNB] cannot be compelled to give the same treatment to [the Aguilars], considering that like the Spouses Pflieger, [the Aguilars] are also their valued clients, at least [the Aguilars] deserve to be treated with fairness and equality.[73]

The CA did not rule categorically on the issue of whether the Aguilars should be entitled to the same treatment by PNB as the spouses Pflieger because, according to the CA, "it was unnecessary to dwell on other issues aired in the course of the Appeal" considering that the Aguilars were not entitled to restitution absent any excess payment after the recomputation of the RA 7202 accounts of the late spouses Aguilar.[74]

Such issue is, however, before the Court, thus: Does PNB have an obligation to accord the Aguilars the same treatment as it accorded the spouses Pflieger regarding the crediting of the VOS or CARP proceeds of their respective agricultural lots against their respective sugar crop loans covered by RA 7202?

The sources of obligations under Article 1157 of the Civil Code are: (1) law; (2) contracts; (3) quasi-contracts; (4) acts or omissions punished by law; and (5) quasi-delicts. Immediately, sources (2), (3) and (4) are inapplicable in this case. The Aguilars are not privies to the Compromise Agreement between PNB and the spouses Pflieger. Regarding law, as PNB's source of obligation, the CA correctly ruled that the Aguilars are not entitled to restitution under RA 7202. Thus, RA 7202 cannot be invoked as the statutory basis to compel PNB to treat the Aguilars similarly with the spouses Pflieger.

Aside from Chapter 2, Quasi-Delicts, of Title XVII. - Extra-Contractual Obligations, Book IV of the Civil Code, it is recognized that quasi-delict may arise under Chapter 2, Human Relations of the Preliminary Title of the Civil

Code.

In the landmark case of *Velayo v. Shell Company of the Philippine Islands, Ltd.*,^[75] the Court ruled, in effect, that the undue preference made by an insolvent debtor corporation in transferring its C-54 plane in favor of a creditor corporation, which was its sister company, depriving its other creditors of the opportunity to recover said plane, was in violation of Article 19 in relation to Article 21 of the Civil Code, and observed that:

x x x Chapter 2 of the PRELIMINARY TITLE of the Civil Code, dealing on Human Relations, provides the following:

"Art. 19. Any person must, in the exercise of his rights and in the [performance] of his duties, act with justice, give everyone his due, and observe honesty and good faith."

It maybe said that this article only contains a mere [declaration] of principles and while such statement may be x x x essentially correct, yet We find that such declaration is implemented by Article 21 and [sequence] of the same Chapter which prescribe the following:

"Art. 21. Any [person] who wilfully causes loss or injury to another in a manner that is contrary to morals, good customs or public policy shall compensate the latter for the damage."

The Code Commission commenting on this article, says the following:

"Thus at one stroke, the legislator, if the foregoing rule is approved (as it was approved), would vouchsafe adequate legal remedy for that untold numbers of moral wrongs which is impossible for human foresight to provide for specifically in the statutes.

"But, it may be asked, would this proposed article obliterate the boundary line between morality and law? The answer is that, in the last analysis, every good law draws its breath of life from morals, from those principles which are written with words of fire in the conscience of man. If this [premise] is admitted, then the proposed rule is a prudent earnest of justice in the face of the impossibility of enumerating, one by one, all wrongs which cause damages. When it is reflected that while codes of law and statutes have changed from age to age, the conscience of man has remained fixed to its ancient moorings, one can not but feel that it is safe and salutary to transmute, as far as may be, moral norms into legal rules, thus imparting to every legal system that enduring quality which ought to be one of its superlative attributes.

"Furthermore, there is no belief of more baneful consequence upon the social order than that a person may with impunity cause damage to his fellow-men so long as he does not break any law of the State, though he may be defying the most sacred postulates of morality. What is more, the victim loses faith in the ability of the government to afford protection or relief.

"A provision similar to the one under consideration is embodied in article 826 of the German Civil Code.

"The same observations may be made concerning injurious acts that are contrary to public policy but are not forbidden by statute. There are countless acts of such character, but have not been foreseen by the lawmakers. Among these are many business practices that are unfair or oppressive, and certain acts of landholders and employers affecting their tenants and employees which contravene the public policy of social justice.

x x x (Report of the Code Commission on the Proposed Civil Code of the Philippines, p. 40-41).^[76]

Also, in *Heirs of Purisima Nala v. Cabansag*,^[77] the Court observed:

Preliminarily, the Court notes that both the RTC and the CA failed to indicate the particular provision of law under which it (sic) held petitioners liable for damages. Nevertheless, based on the allegations in respondent's complaint, it may be gathered that the basis for his claim for damages is Article 19 of the Civil Code, which provides:

Art. 19. Every person must, in the exercise of his rights and in the performance of his duties, act with justice, give everyone his due, and observe honesty and good faith.

The foregoing provision sets the standards which may be observed not only in the exercise of one's rights but also in the performance of one's duties. When a right is exercised in a manner which does not conform with the norms enshrined in Article 19 and results in damage to another, a legal wrong is thereby committed for which the wrongdoer must be held responsible. But a right, though by itself legal because recognized or granted by law as such, may nevertheless become the source of some illegality. A person should be protected only when he acts in the legitimate exercise of his right; that is, when he acts with prudence and in good faith, but not when he acts with negligence or abuse. There is an abuse of right when it is exercised only for the purpose of prejudicing or injuring another. The exercise of a right must be in accordance with the purpose for which it was established, and must not be excessive or unduly harsh; there must be no intention to injure another.[78]

In order to be liable for damages under the abuse of rights principle, the following requisites must concur: (a) the existence of a legal right or duty; (b) which is exercised in bad faith; and (c) for the sole intent of prejudicing or injuring another.[79]

It should be stressed that malice or bad faith is at the core of Article 19 of the Civil Code. Good faith is presumed, and he who alleges bad faith has the duty to prove the same.[80] Bad faith, on the other hand, does not simply connote bad judgment to simple negligence, dishonest purpose or some moral obloquy and conscious doing of a wrong, or a breach of known duty due to some motives or interest or ill will that partakes of the nature of fraud. Malice connotes ill will or spite and speaks not in response to duty. It implies an intention to do ulterior and unjustifiable harm.[81]

To make PNB liable under the principle of abuse of rights, the Aguilaras have the burden to prove the requisites enumerated above. They claim that they are similarly circumstanced as the spouses Pfeider and there was no reason for PNB to treat them differently.[82]

PNB has explained that there are differences in the circumstances of its two sugar crop loan debtors which, to PNB, justify the different accommodations that it accorded to them. PNB insists that the spouses Pfeider first gave their conformity to the recomputation made by PNB (as audited by COA) on their loan accounts without crediting therein as loan payments the value of the CARP proceeds of the agricultural lots.[83] After recomputation of the crop loans and condonation of interest in excess of 12% per annum, penalties and surcharges, the spouses Pfeider confirmed and acknowledged as accurate the recomputed balance on their loans and, thereafter they signed the Compromise Agreement with PNB.[84] The spouses Pfeider were then allowed to restructure their account for 13 years.[85] On PNB's part, it agreed that the value of the Escalante agricultural lots transferred by PNB to DAR would be deducted from the aggregate amount due on the loans upon settlement by DAR and/or LBP of the just compensation due PNB for the transfer of said lots to the Republic of the Philippines.[86] The settlement agreement between PNB and the spouses Pfeider was to the effect that PNB would credit as payment the CARP proceeds of the foreclosed agricultural properties in the Compromise Agreement provided that the case filed against PNB was withdrawn.[87]

According to PNB, the Aguilaras, on the other hand, did not signify their conformity to the recomputation as audited and certified by the COA and refused to sign the restructuring agreement because they insisted that the CARP proceeds be first considered as loan payments and should be deducted from their loan accounts.[88] PNB has taken the position that if the CARP proceeds were to be credited to the loan accounts of the Aguilaras in the recomputation, then, the restructuring agreement would no longer be needed because the CARP proceeds were more than enough to cover the net balance of their accounts and, if that was allowed, there would be nothing to amortize.

PNB further contends that the Aguilaras cannot invoke its Compromise Agreement with the spouses Pfeleider because: (1) the former are not parties thereto; (2) the principle of relativity of contract would be violated; and (3) PNB's freedom to enter into contracts would also be violated if PNB would be compelled to accommodate the Aguilaras.[89]

Given the foregoing explanation by PNB, it was incumbent upon the Aguilaras, to make PNB liable for damages based on the principle of abuse of rights, to prove that PNB acted in bad faith and that its sole intent was to prejudice or injure them. The Aguilaras, however, failed in this regard.

Also, the Court notes from the duly notarized Compromise Agreement between the spouses Pfeleider and PNB dated December 30, 1999[90] that the accounts of the former to the latter were crop loans ("sugar and sugar-related loans") and, thus, covered by RA 7202,[91] unlike the accounts of the Aguilaras which included non-RA 7202 accounts, as mentioned in the narration of facts. Since the Aguilaras were delinquent in their accounts, including their non-RA 7202 accounts, and the mortgaged properties of the Aguilaras similarly secured the non-RA 7202 accounts, PNB had no option but to foreclose the mortgage.

To recapitulate:

x x x A person should be protected only when he acts in the legitimate exercise of his right; that is, when he acts with prudence and in good faith, but not when he acts with negligence or abuse. There is an abuse of right when it is exercised only for the purpose of prejudicing or injuring another. The exercise of a right must be in accordance with the purpose for which it was established, and must not be excessive or unduly harsh; there must be no intention to injure another.[92]

In order to be liable for damages under the abuse of rights principle, the following requisites must concur: (a) the existence of a legal right or duty; (b) which is exercised in bad faith; and (c) for the sole intent of prejudicing or injuring another.[93]

In this case, the Aguilaras failed to substantiate the above requisites to justify the award of damages in their favor against PNB, who merely exercised its legal right as a creditor pursuant to RA 7202.

WHEREFORE, the petition for review is hereby DENIED. The Court of Appeals Decision dated March 23, 2012 and, consequently, Resolution dated April 1, 2013 in CA-G.R. CV No. 00708 are hereby AFFIRMED.

SO ORDERED.

Carpio, Senior Associate Justice, (Chairperson), Peralta, Perlas-Bernabe, and Reyes, Jr., JJ., concur.

[1] Rollo, pp. 4-12, excluding Annexes.

[2] Id. at 57-69. Penned by Associate Justice Eduardo B. Peralta, Jr., with Associate Justices Gabriel T. Ingles and Pamela Ann Abella Maxino concurring.

[3] Twentieth Division.

[4] Rollo, pp. 28-55. Penned by Presiding Judge Moises G. Nifras, Sr.

[5] Id. at 75-76. Penned by Associate Justice Gabriel T. Ingles, with Associate Justices Edgardo L. Delos Santos and Pamela Ann Abella Maxino concurring.

[6] Special Former Twentieth Division.

[7] Died on January 10, 1996; rollo, p. 58.

[8] Died on March 22, 2001, after the instant case was filed; id. at 57.

[9] Rollo, p. 29.

[10] Id.

[11] Id.

[12] Id.

[13] Marked as Exh. "G" and Exh. "3," records, p. 78.

[14] Id.

[15] Voluntary Offer to Sell.

[16] Rollo, pp. 58-62.

[17] Id. at 53.

[18] Id.

[19] AN ACT AUTHORIZING THE RESTITUTION OF LOSSES SUFFERED BY SUGAR PRODUCERS FROM CROP YEAR 1974-1975 TO CROP YEAR 1984-1985 DUE TO THE ACTIONS OF GOVERNMENT-OWNED AND CONTROLLED AGENCIES, approved on February 29, 1992.

[20] Rollo, p. 53.

[21] Id. at 52, citing RA 7202, Sec. 1.

[22] Id. at 53-54.

[23] Id. at 54.

[24] Id. at 68.

[25] Id. at. 65-66.

[26] Id. at 68.

[27] See id. at 65-66.

[28] Id. at 68.

[29] Id. at 70-73.

[30] Id. at 75-76.

[31] Id. at 86-101.

[32] Id. at 103-105.

[33] Id. at 126-153.

[34] Id. at 160-176.

[35] Id. at 7.

[36] RA 7202, Sec. 1.

[37] Formerly the Central Bank of the Philippines was mandated, under Section 9 of RA 7202, to promulgate "[s]uch other rules and regulations as may be necessary for the adequate implementation of this Act." The RA 7202 IRR was approved by the BSP on August 27, 1993; Exh. "D," records, p. 11.

[38] Exh. "D," records, p. 11.

[39] Rollo, pp. 64-67.

[40] The late spouses Aguilar had RA 7202 and non-RA 7202 accounts with PNB; Exh. "G" and Exh. "3," records, p. 78.

[41] Rollo, p. 58.

[42] Id. at 68.

[43] Executive Order No. 31 dated October 29, 1992 directing all government lending financial institutions to implement the Act RA 7202 IRR, Sec. 2.b.

[44] Executive Ocdor No. 114 dated July 23, 1993 amending Section 2 of E.O. 31. RA 7202 IRR, Sec. 2.c.

[45] RA 7202 IRR, Sec. 2.k provides: "LOANS SUBJECT TO RECOMPUTATION shall refer to borrowings of sugar producers related to the production and milling of sugar which were granted by lending banks during the period covered."

[46] Rollo, pp. 66-67.

[47] Exh. "D," records, p. 11.

[48] Id.

[49] The total of the principal of the non-RA 7202 accounts is P212,054.25, and if the P270,351.62 total of the principal of the RA 7202 accounts is added, total principal of the account of the late spouses Aguilar is P482,405.87, as of November 30, 1999. As of that date, interest of the non-RA 7202 accounts and penalty are computed at P829,304.12 and P151,323.18, respectively, or a total of P980,627.30, while interest of RA 7202 accounts amounted to P773,304.74. Thus, total outstanding loan obligations of the late spouses Aguilar as of November 30, 1999 stood at P2,236,337.91. Exh. "G" and Exh. "3," records, p. 78.

[50] Exh. "D," records, p. 11.

[51] Presidential Commission on Good Government.

[52] RA 7202 IRR, Sec. 2.r, Exh. "D," records p. 11.

[53] RA 7202 IRR, Sec. 12.a, id.

[54] Petition, rollo, p. 7.

[55] Exh. "H" and Exh. "5," records, p. 79.

[56] Exh. "I" and Exh. "6," id. at 84.

[57] Supra note 49.

[58] Petition, rollo, pp. 9-10.

[59] Petitioners' Memorandum, rollo, pp. 171-172.

- [60] Exh. "D," records, p. 11.
- [61] Also referred to as Fred in some parts of the records.
- [62] Exh. "E-1," records, pp. 16-20.
- [63] See Joint Motion (For Approval of Compromise Agreement), Exh. "E" and Exh. "2," id. at 12-15.
- [64] Petition, rollo, p. 8.
- [65] Id. at 9.
- [66] Comment, id. at 90.
- [67] Id. at 91-92.
- [68] Exh. "7," records, pp. 201-203.
- [69] Exh. "7", id. at 202; Comment, rollo, pp. 90-91.
- [70] Exh. "D," id. at 11; id. at 92.
- [71] Comment, rollo, pp. 97-99.
- [72] Rollo, p. 54.
- [73] Id. at 53.
- [74] Id. at 68.
- [75] 100 Phil. 186 (1956).
- [76] Id. at 202-203.
- [77] 577 Phil. 310 (2008).
- [78] Id. at 315-316, citing *Hongkong and Shanghai Banking Corporation Limited v. Catalan*, 483 Phil. 525, 538-539 (2004).
- [79] Id. at 316, citing *Far East Bank and Trust Company v. Pacilan, Jr.*, 503 Phil. 334, 343 (2005).
- [80] Id., citing *Saber v. Court of Appeals*, 480 Phil. 723, 747 (2004).
- [81] Id., citing *Saber v. Court of Appeals*, id. at 747-748.
- [82] Petition, rollo, p. 9.
- [83] Comment, id. at 97.
- [84] Id. at 97-98.
- [85] Id. at 98.
- [86] Id.
- [87] Id.
- [88] Id.
- [89] Answer, records, p. 35.

[90] Notarized on January 3, 2000, *id.* at 20.

[91] Exh. "E-1" and Exh. "2-A," *id.* at 16-17.

[92] *Heirs of Purisima Nala v. Cabansag*, *supra* note 77, at 316, citing *Hongkong and Shanghai Banking Corporation Limited v. Catalan*, *supra* note 78, at 538-539.

[93] *Id.*, citing *Far East Bank and Trust Company v. Pacilan, Jr.*, *supra* note 79, at 343.

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