

CARLOTA P. VALENZUELA, IN HER CAPACITY AS SUPERINTENDENT OF BANKS AND AUTHORIZED REPRESENTATIVE OF THE CENTRAL BANK OF THE PHILIPPINES IN THE LIQUIDATION OF THE RURAL BANK OF LU...

G.R. No. 56168. December 22, 1988

Ponente: PARAS, J.

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PARAS, J.:

Invoking the provisions of Article 24 of the New Civil Code which states:

"In all contractual, property or other relations, when one of the parties is at a disadvantage on account of his moral dependence, ignorance, indigence, mental weakness, tender age or other handicap, the Court must be vigilant for his protection."

the heirs of Carlos Telosa, a fisherman and farmer with a very limited education, initiated a complaint before the Court of First Instance of Quezon seeking the nullification of the real estate mortgage executed by Carlos Telosa in favor of the Rural Bank of Lucena and/or its reformation to state the real intention of the parties. The case was docketed as Civil Case NO. 7545.

The record discloses that on November 29, 1960 Carlos Telosa obtained a loan from the Rural Bank of Lucena Inc. and as a security thereof, he mortgaged a parcel of land located at Bo. Amugeria, Malunay, Quezon with an area of 50,000 square meters. This parcel of land was registered in the name of the spouses Carlos Telosa & Rufina Telosa.

Several months thereafter, the Rural Bank of Lucena became a distressed bank. In a letter dated June 16, 1961 the Acting Governor of the Central Bank apprised the stockholders of the Lucena Bank that the Monetary Board in its Resolution No. 928 which was approved on June 13, 1961 found that its officers, directors and employees had committed certain anomalies or had resorted to unsound banking practices which were prejudicial to the government, its depositors and creditors.

The Monetary Board later on decided to liquidate the Lucena Bank. To implement the resolution of the Monetary Board for the said bank's liquidation, the Central Bank pursuant to Section 29 of its charter and on the assumption that the Lucena bank was insolvent, filed with the Court of First Instance of Manila a petition dated March 27, 1962 for assistance and supervision in the liquidation of the Lucena Bank. The case was docketed as Civil Case No. 50019 and assigned to Branch 1 thereof.

Acting on that petition, the Court of First Instance of Manila issued an order dated March 28, 1963, directing the Lucena bank to turn over its assets to the Central Bank's authorized representative.

The Monetary Board in its resolution No. 426 dated April 2, 1963 designated the Superintendent of Banks Carlota P. Valenzuela or her duly authorized representative to take charge of the assets of the Lucena bank.

The Board in its resolution of November 27, 1963 ordered the Superintendent of Banks to convert the assets of the Lucena bank to money.

Among the accounts of the Lucena bank inventoried by the Central Bank's representative was the account of Carlos Telosa in the principal amount of P5,000.00. A demand letter was thus sent to Carlos Telosa on August 27, 1965 by the Central Bank examiner Agapito S. Fajardo. Because Carlos Telosa knew that his obligation to the rural bank was only P300.00 not P5,000.00, he executed an affidavit dated January 24, 1966 (Exh. "D") protesting the demand.

On January 4, 1966 Carlos Telosa paid the amount of P400.00 as evidenced by Official Receipt of the Rural Bank (Exh. "F"). Carlos Telosa claimed this amount represented the principal and interest with a remaining balance of P11.25 which was paid by Dolores Telosa on April 18, 1972 as shown by official receipt of the rural bank (Exh. "g").

Meanwhile, Carlos Telosa died on January 13, 1968.

Claiming that the payments made did not fully satisfy the whole amount due because the record still showed a balance of P9,032.22 including interest as of February 29, 1972, Napoleon R. Cruz, then authorized deputy of the Central Bank assigned at the Lucena bank, petitioned the Deputy Provincial Sheriff of Quezon to extra-judicially foreclose the mortgage and sell the colla-teral at public auction. The foreclosure sale was scheduled on April 20, 1972.

To restrain the sheriff of Quezon from proceeding with the sale, a complaint was filed on April 18, 1972, by the widow and children (now private respondents) of Carlos Telosa, before the Court of First Instance of Quezon, against the Rural Bank of Lucena Inc. The plaintiffs prayed for a judgment declaring the contract of mortgage executed by Carlos Telosa in favor of the Rural Bank of Lucena, Inc. null and void and of no further force and effect and/or that the said contract be reformed to state the true intention and agreement of the parties with a prayer for the issuance of writ of preliminary injunction to stop the sheriff of Quezon from proceeding with the extra-judicial foreclosure scheduled on April 20, 1972. It was the contention of the plaintiffs (now private respondents) that the amount of the loan obtained by Carlos Telosa was only P300.00 and that the same had already been fully paid.

Finding that the complaint filed was not sufficient in form and substance and that the proper parties were not impleaded, Judge Delia P. Medina of the Court of First Instance of Quezon, Branch I, issued an Order on April 18, 1972 directing the plaintiffs within five (5) days from notice, to amend their complaint in order that all proper parties may be impleaded.

Meanwhile, as there was no restraining order issued, the foreclosure sale took place as scheduled on April 20, 1972, with the Rural Bank of Lucena, Inc., as the lone and highest bidder in the auction sale for which an award was made in its favor. The certificate of sale was thereafter issued to it and the same was registered with the Registry of Deeds on September 11, 1972.

On May 4, 1972, the plaintiffs filed their amended complaint, this time against Carlota P. Valenzuela in her capacity as Superintendent of Banks and authorized representative of the Central Bank in the liquidation of the Rural Bank of Lucena, Inc., as sole defendant. In addition to the prayers in their original complaint, plaintiffs prayed in their amended complaint that the extra-judicial foreclo-sure sale be annulled.

Defendant (now petitioner) moved to dismiss the amended complaint on two (2) grounds: (1) that the trial court has no jurisdiction over the subject matter of the action as the Rural Bank of Lucena, Inc., is in the process of liquidation in the Court of First Instance of Manila and (2) that the plaintiffs have no cause of action against the

defendant. The motion to dismiss was denied. Thereafter, defendant filed her answer. In addition to the two grounds relied upon in the motion to dismiss, she set up the defenses of the validity of the loan documents, reflecting in all respects the correct amount (P5,000.00) which Carlos Telosa obtained from the Rural Bank of Lucena, Inc. and that the plaintiffs' cause of action had already prescribed.

After trial, the court a quo rendered its decision in favor of the plaintiffs, the dispositive portion of which reads as follows -

"WHEREFORE, judgment is hereby rendered in favor of the plaintiffs and against the defendant:

"1.

Ordering the reformation of Exhibit 3-CBP so as to make it reflect a mortgage over one-half of the property covered by Tax Declaration No. 2156, to secure a loan by Carlos Telosa in the amount of P300.00 and also to reflect the civil status of Carlos Telosa as 'married', to be signed by the plaintiffs, as heirs of Carlos Telosa, for and in his behalf;

"2.

Setting aside as illegal and void the extrajudicial foreclosure sale of the property covered by Tax Declaration No. 2156, conducted by the Deputy Provincial Sheriff on April 20, 1972;

"3.

Ordering the defendant to deliver to the plaintiffs the property covered by Tax Declaration No. 2156, if said defendant has caused the taking of possession thereof by virtue of the extrajudicial foreclosure; and

"4.

Ordering the defendant to pay the plaintiffs from the assets of the Rural Bank of Lucena, Inc., the amount of P2,000.00 as moral damages, P1,500.00 as attorney's fees and P900.00, as litigation expenses.

"With costs against the defendant.

"SO ORDERED." (Record on Appeal, pp. 344-346).

The above decision was appealed to the Court of Appeals and in its decision^[1] dated October 29, 1980, said court affirmed the decision of the lower court in toto. Hence, the instant petition for review.

Petitioner contends that (a) a separate action involving the assets, properties and record of an insolvent bank in the process of liquidation in the Court of First Instance of Manila cannot be maintained in another court; (b) a public instrument celebrated with all the requisites under the safeguard of a notarial certificate is evidence of a high character and to overcome its recitals, it is incumbent upon the party challenging it to prove his claim with clear, convincing and more than merely preponderant evidence; (c) respondent Rufina Telosa has no factual, valid and legal basis to ask for the reformation of the real estate mortgage contract, but even assuming that she has, her cause of action to reform had already prescribed; (d) moral damages to warrant recovery, must be alleged in the complaint and duly proved; (e) the reason for awarding attorney's fees and litigation expenses must be stated in the decision and (f) there is no legal and factual basis for the application of Article 24 of the New Civil Code in the instant case.

On the issue of jurisdiction, this Court ruled in the case of *Hernandez vs. Rural Bank of Lucena, Inc.* (G.R. NO. L-29791, January 10, 1978, 81 SCRA 75) that if there is a judicial liquidation of an insolvent bank, all claims against the bank should be filed in the liquidation proceeding.

"The fact that the insolvent bank is forbidden to do business, that its assets are turned over to the Superintendent of Banks, as a receiver, for conversion into cash, and that its liquidation is undertaken with judicial intervention means that, as far as lawful and practicable, all claims against the insolvent bank should be filed in the liquidation proceeding. The judicial liquidation is intended to prevent multiplicity of actions against the insolvent bank. The lawmaking body contemplated that for convenience only one court, if possible, should pass upon the claims against the insolvent bank and that the liquidation court should assist the Superintendent of Banks and control his operations. In the course of the liquidation, contentious cases might arise wherein a full-dress hearing would be required and legal issues would have to be resolved. Hence, it would be necessary in justice to all concerned that a Court of First Instance should assist and supervise the liquidation and should act as umpire and arbitrator in the allowance and disallowance of claims. The judicial liquidation is a pragmatic arrangement designed to establish due process and orderliness in the liquidation of the bank, to obviate the proliferation of litigations and to avoid injustice and arbitrariness." (81 SCRA 77).

With the foregoing ruling, the more proper procedure would be to set aside the decision rendered by the Court of First Instance of Quezon and consequently dismiss the case without prejudice to the right of the private respondents to take up with the liquidation court, the Court of First Instance of Manila, the settlement of their mortgage obligation.

However, taking into consideration the circumstances of the case and in the interest of justice We are constrained to deviate from this procedure. To order the private respondents to refile and relitigate their case before the liquidation court would be an exercise in futility. It would mean another several years of trial and additional expenses to private respondents who are admittedly living in poverty. Incidentally, the property in question is the only property of private respondents. We have carefully reviewed the records of the case and We are convinced as were the trial court and the appellate court that the amount of loan actually obtained by the deceased Telosa was only P300.00 and not the P5,000.00 as claimed by petitioner. This fact was established by the following evidence:

(a)

Exhibit "E" the receipt signed by the deceased dated December 2, 1960 showing the amount of loan to be only P300.00.

(b)

The oral testimony of Rufina Telosa, wife of the deceased;

(c)

The testimony of Ponciano Mendoza who was with the deceased at the time of the transaction and who categorically testified that the amount of the loan was P300.00 in six P50.00 bills but that Carlos Telosa was made to sign blank forms by the bank.

Needless to state in this regard this particular transaction was one of the fraudulent and anomalous transactions involving the officers of the Rural Bank of Lucena, Inc. The latter took advantage of the very limited education of Carlos Telosa.

The records further show that private respondents made payment in the amount of P400.00 on January 4, 1966 and P11.25 on April 18, 1972 to the Rural Bank of Lucena. This constituted full payment of the principal loan of P300.00 and the interest thereon.

Anent the issue of prescription, suffice it to state that private respondents filed their complaint well within the ten (10) year prescriptive period to bring an action for reformation of an instrument. After discovering the fraudulent transaction on March 14, 1972, private respondents allowed only 14 days to pass before filing their complaint.

Petitioner alleges that the trial court did not state in its decision why it was awarding attorney's fees. The allegation is not correct. A cursory reading of the decision would show that the reason for the award of attorney's fees is contained in the decision, hereinbelow quoted:

"As a second cause of action, plaintiffs assert that the mortgage contract in question was executed without the knowledge and marital consent of the wife, plaintiff Rufina Telosa, hence voidable, insofar as her conjugal share is concerned. Plaintiffs further assess moral damages in the amount of P5,000.00, attorney's fees of P2,000.00 and litigation expenses of P75.00 per hearing of this case." (Brief for private respondents-appellees, p. 44; Record on Appeal, p. 325).

Clearly the circumstances show that the award of attorney's fees is proper and just.

The decision also made findings that the bank acted fraudulently. It was the bank, represented by petitioner, thru its fraudulent acts which compelled private respondents to litigate and incur litigation expenses.

Incidentally the ratification by the wife cures any defect the contract may have had.

Petitioner further alleges that moral damages should not have been granted because private respondents did not duly allege the same in the complaint. The lower court granted the same because of private respondents' prayer for general relief which includes moral damages. Private respondents had proven that they suffered mental anguish, serious anxiety and moral shock as a consequence of the fraudulent act of the Rural Bank of Lucena, Inc. This is expressly allowed by Art. 2217 of the New Civil Code.

Going back to the issue of jurisdiction, it must be emphasized that at the time the present action was instituted to enjoin the foreclosure of the real estate mortgage under consideration, what must have prompted herein private respondents to seek redress from the Court of First Instance of Quezon was the authority of said court to exercise its injunctive relief. The Court of First Instance having territorial jurisdiction of the acts sought to be enjoined, the Court of First Instance of Quezon, must take cognizance of the case.

Finally, even Our ruling in the cited Hernandez versus Rural Bank case admits of exception. It says "as far as lawful and practicable all claims against the insolvent bank should be filed in the liquidation proceeding." This case should be one of them.

WHEREFORE, the petition is DENIED. The appealed decision of the Court of Appeals is AFFIRMED.

SO ORDERED.

Fernan, C.J., Melencio-Herrera, Cruz, Feliciano, Gancayco, Padilla, Bidin, Sarmiento, Cortes, Grino-Aquino, Medialdea, and Regalado, JJ., concur.

Gutierrez, Jr., J., in the result.

Narvasa, J., on leave.

[1] Penned by Justice Porfirio V. Sison and concurred in by Justices Carlos L. Sundiam and Elias B. Asuncion.

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