

**NATIONAL INVESTMENT AND DEVELOPMENT CORPORATION,
PETITIONER, VS. HON. COURT OF APPEALS, HON. NICOLAS GALING,
PRESIDING JUDGE OF BRANCH 166, REGIONAL TRIAL COURT,
NATIONAL CAPITA...**

G.R. No. 81788. December 15, 1989

Ponente: GRIÑO-AQUINO, J.

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GRIÑO-AQUINO, J.:

The first impression this case creates is one of shock and disgust that the National Investment and Development Corporation (or NIDC), a large government financial institution serviced by a staff of government lawyers, was declared in default and thereby lost the right to contest the private respondents-debtors' action to write off the balance of their multi-million debt because NIDC's lawyers were chronically incapable of meeting reglementary deadlines and habitually addicted to filing motions for extension of time. However, the untold story, which has now come to light, reveals that this case was filed at an extremely difficult time for NIDC when it was in the throes of being dissolved - in articulo mortis so to speak. As generally happens in such a situation, with employees and officers separated from the service, and records bundled up and shipped to the PNB office in Manila, the task of preparing a timely answer to the complaint was rendered unusually difficult. The problem of locating the records of the Victoria Poultry Farm's account was compounded by the fact that the employees and officers who were familiar with the account had been retired from the service. This fortuitous circumstance was completely ignored by the trial court and the Court of Appeals when they declared NIDC in default for failure to comply strictly with the reglementary period for filing its answer.

In the middle of 1979, Victoria Farms, Inc. applied to NIDC for a P6.6 million loan to finance its poultry breeder/hatchery project in San Pablo City. On December 20, 1979, NIDC granted the borrower a P7 million loan in the form of U.S. dollars at a conversion rate of P7.297 to US\$1.00 to be amortized according to an amortization table prepared by NIDC, plus a sub-loan of P2,060,000, at interest rates of 6% and 12% per annum, respectively, payable up to August 1986 according to the amortization schedule. To secure the loans, the debtors executed and delivered to the petitioner on February 18, 1980 a Deed of Mortgage, Credit Agreement, Joint and Solidary Agreement, Deed of Assignment of Voting Rights, a Pledge Agreement, and on September 29, 1981, a Deed of Supplemental Mortgage and consolidated Amendment/Supplement to Security/Device Agreement which were renewed on November 19, 1984 upon restructuring the loans.

On July 30, 1986, the debtors paid NIDC a total of P17,640,445.51 which, according to them, fully covered Victoria Farms' obligations and totally extinguished its debts. However, as NIDC's books of account still carried an outstanding indebtedness of Victoria Farms, the private respondents on November 11, 1986, demanded in writing from NIDC that their mortgages and surety contracts in favor of NIDC be cancelled. Since NIDC ignored their demand, they filed against NIDC on November 24, 1986, a complaint for rescission of contract and annulment of mortgage with damages in the Regional Trial Court, Branch 166, at Pasig, Metro Manila (Civil Case No. 54086).

On November 28, 1986, NIDC was served with summons and a copy of the complaint through Corazon Mabilangan, a clerk typist. The deadline for filing its answer was December 13, 1986.

On December 11, 1986, its counsel filed by registered mail a motion for extension of fifteen (15) days from December 13, 1986 or up to December 28, 1986, to file a motion to quash the improper service of summons and/or to dismiss the complaint.

On December 19, 1986, the trial court granted the extension prayed for.

On December 29, 1986 (December 28, 1986 being a Sunday), NIDC's counsel mailed a motion to dismiss dated December 24, 1986 alleging that the court had not acquired jurisdiction over the corporation because the summons and complaint were not served through the president, manager, secretary, cashier, agent or director of the corporation as provided in Section 13, Rule 14 of the Rules of Court. The motion was received by the Court on January 5, 1987. The plaintiffs-debtors opposed it.

On January 19, 1987, the Court denied the motion to dismiss and directed the defendant to answer the complaint within ten (10) days from receipt of the order, contrary to Section 4, Rule 16 of the Rules of Court which gives the movant fifteen (15) days (from notice of the denial of his motion to dismiss), to answer the complaint. The order was received by NIDC on January 26, 1987.

On February 5, 1987 (the last day of the ten-day period), NIDC's counsel asked that he be given 30 days (instead of 10) from January 26, 1987, or up to February 25, 1987, to file the answer because of his heavy volume of work.

Instead of 30 days, the court, in an order dated February 6, 1987, granted NIDC "a last extension of fifteen (15) days from January 26, 1987" (actually it was only the reglementary period) or up to February 10, 1987, to file its answer. In effect, the court unreasonably denied NIDC's plea for a 15-day extension of time from the expiration of the reglementary period on February 10, 1987. This unexpected, irrational, and arbitrary action of the trial court completely upset the defendant's time schedule for filing its pleading, resulting in its being improvidently declared in default.

Unaware of the court's February 6, 1987 order, NIDC's counsel, Atty. Eduardo D. Alfonso, Jr., "sought a second extension of time to file answer" pleading his "difficulties in searching for the documents and other papers" (p. 9, Rollo) of NIDC which had been turned over to the PNB upon the dissolution of the corporation. The court denied his motion on March 9, 1987. In the same order, it granted the debtors' "Urgent Ex Parte Motion to Declare NIDC in Default," and set the ex parte reception of the plaintiffs' evidence on March 16, 1987 at 8:30 A.M. and, on the basis of evidence presented ex parte by the plaintiffs-debtors on March 16, 1987, a decision was rendered two days later (March 18, 1987), against NIDC as follows:

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

"1. Declaring the indebtedness of the plaintiffs as extinguished, fully paid, and satisfied by the payment of P17,640,445.51;

"2. Directing defendant, its agent or principal to surrender immediately to plaintiffs, through counsel, Transfer Certificate of Title No. T-19499, Registry of Deeds, San Pablo City, covering Lot 3, of plan PSU-6215, with buildings and improvements that may exist thereon; and directing the Register of Deeds of San Pablo City to cancel immediately the mortgage or lien annotation over said TCT No. T-19499, covering a parcel of land which has buildings and improvements existing thereon, situated at Barrio San Rafael, San Pablo City as found in the Deed of Supplemental Mortgage (Exh. 'UU'); and ordering the release of the other properties of the plaintiffs and other Chattel Mortgage;

"3. Declaring the Deed of Mortgage, credit agreement, joint and solidary agreement, deed of assignment of voting rights, a pledge agreement, all dated February 18, 1980, and the deed of supplemental mortgage, and consolidated [Amendment/Supplement] to security/device agreements of September 29, 1981, and November 19, 1984 on the restructured loans, as null and void;

"4. Ordering defendant to pay plaintiffs the sum of P10,000.00 as attorney's fees;

"5. Ordering defendant to return immediately to plaintiffs the stock certificate of plaintiff corporation bearing No. 003 with 70,000 shares in the name of Edward Howard G. Leong; stock certificate No. 004 in the name of Soledad M. Leong with 20,000 shares; stock certificate No. 005 in the name of Angelita T. Alcantara with 20,000 shares; and stock certificate No. 008 in the name of Edward Howard G. Leong with 9,000 shares, which stock certificates were turned over to the defendant on June 17, 1987; and

"6. Ordering defendant to pay the costs of suit." (pp. 10-11, Rollo.)

NIDC's counsel received the decision on March 23, 1987 (p. 50, Record).

NIDC's motion dated April 3, 1987 praying for reconsideration of the order of default and of the court's decision was filed by mail on April 8, 1987 (one day late) and was denied by the court on April 29, 1987 for tardiness (p. 12, Rollo). Before that, on April 24, 1987, NIDC filed a Motion for Leave to Admit its Answer (with the Answer attached) wherein it alleged the following defenses to the debtors' action:

"1. the contracts/mortgages and security device agreements relative to the plaintiffs' foreign currency sub-loans are valid and legal; plaintiffs are estopped to ask for rescission of said contracts after they had reaped benefits therefrom;

"2. as stipulated in the contracts, billings for the loan amortizations sent 30 days before due date shall be subject to adjustment in the event of a change in the rate of exchange between the Philippine peso and the U.S. dollar (par. 3.02);

"3. the rate of conversion per US\$1 in 1979 when plaintiffs' loan was granted by NIDC was approximately P7.29 which rose to P18.32 when the loan was restructured in July 1984, and P21 in 1986;

"4. the total foreign currency sub-loans granted by NIDC to plaintiff corporation to finance a breeder farm and hatchery in San Pablo City in 1975 and 1980 is US \$1,218,015.05;

"5. plaintiffs' remittances on their sub-loans were not sufficient to cover maturing amortizations due to peso devaluation, thus when they requested for restructuring of their indebtedness as of December 23, 1983 their total account with defendant was P19.32M of which P11.16M was current and P8.16M past due;

"6. NIDC restructured the plaintiffs' accounts at their own request; and

"7. NIDC has the right to recover its huge investment in plaintiff corporation and minimize government losses." (pp. 64-71, Record.)

But the court did not act on NIDC's answer. Instead, on July 13, 1987, it ordered the execution of its decision, as prayed for by the debtors, Victoria Poultry Farms, Inc., et al. (p. 84, Record).

NIDC promptly sought relief by a petition for certiorari with preliminary injunction in the Court of Appeals which temporarily restrained the execution of the trial court's decision (CA-G.R. SP No. 12332).

However, on December 16, 1987, the Court of Appeals denied NIDC's petition for certiorari for lack of merit, and lifted the restraining order which it had earlier issued (Annex A, p. 25, Rollo).

On January 19, 1988, the Court of Appeals denied petitioner's motion for reconsideration of the decision (Annex

B, p. 35, Rollo), hence, this petition for review.

The only issue in this case is whether NIDC was given its day in court before the default judgment was rendered against it. After deliberating on the records of the case, we are persuaded that it was a victim of an overspeeding administration of justice by the trial court which, with inordinate haste, denied it due process of law which would have enabled it to present its defenses to the plaintiffs' action, foreclosed its right to prove the balance of the plaintiffs' indebtedness, and effectively extinguished its right to collect the same.

A motion for extension of the reglementary period for filing a pleading is addressed to the sound discretion of the court. Generally, a first motion for extension, stating a valid ground therefor, is not denied. Considering that, in this case, the defendant is a government financial institution which had granted a multi-million-peso loan to the plaintiffs, that its records were disorganized and its personnel had dispersed as a result of the dissolution of the corporation (presumably from having extended too many bad loans), that its defense was being handled by overworked government lawyers, and, that the Government stands to lose a sizable chunk of the multi-million-peso debt if only the debtors' side were heard, the court should have been reasonably liberal, instead of unduly strict, in dealing with NIDC's motion for extension of time to file its answer (*Lina vs. CA*, 135 SCRA 637; *Roque vs. Gunigundo*, 89 SCRA 178; *Amante vs. Suñga*, 64 SCRA 192).

We, therefore, hold that the trial court acted with grave abuse of discretion resulting in the loss of NIDC's right to answer and assert its defenses to the complaint. The court's error in computing the reglementary period for filing NIDC's answer, and its arbitrariness in denying NIDC's reasonable motion for extension of that period, tainted all the proceedings, as well as the default judgment that followed thereafter. NIDC's one-day-delay in seeking a reconsideration of the judgment is inconsequential because the judgment is a nullity.

WHEREFORE, the petition for review is granted. The decision of the Court of Appeals in CA-G.R. SP No. 12332, the judgment by default and the order of execution issued by the trial court in Civil Case No. 54086 are hereby annulled and set aside. The trial court is ordered to admit the answer of NIDC and thereafter to conduct a pre-trial and trial on the merits of the case in accordance with the Rules of Court. Costs against the private respondents.

SO ORDERED.

Narvasa, (Chairman), Cruz, Gancayco, and Medialdea, JJ., concur.

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