

**EMILIANO RAMIREZ, ROSARIO RAMIREZ AND CARLOS RUSTIA,
PETITIONERS, VS. HONORABLE COURT OF APPEALS, THIRD
DIVISION AND PHILIPPINE NATIONAL BANK, RESPONDENTS.**

G.R. No. 83972. February 14, 1991

Ponente: PADILLA, J.

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PADILLA, J.:

This is an appeal by certiorari to review and set aside the decision[*] of the Court of Appeals dated 23 June 1988 in CA-G.R. CV No. 10744, reversing the decision[**] of the Regional Trial Court, Branch CX, Pasay City, dated 18 June 1984 in Civil Case No. 6365-P, which ordered the Philippine National Bank (PNB) to pay petitioners (as plaintiffs) P63,205.21 with interest at 12% per annum from the filing of the complaint, attorney's fees of P6,320.52, and the cost of suit.

The material facts are not disputed.

On 3 September 1963, petitioners Emiliano Ramirez, Rosario Ramirez and Carlos Rustia applied for and were granted by the PNB a loan in the amount of P80,000.00 secured by a real estate mortgage over parcels of agricultural land located in San Antonio and Jaen, Nueva Ecija.

On 11 January 1968, petitioners applied for and were granted by the PNB an additional loan in the amount of P53,000.00, thereby increasing the total loan amount to P133,000.00. The additional loan was secured by a real estate mortgage over properties located in Bulacan. On 29 January 1968, the mortgage was amended in that, without increasing the loan, additional securities were posted consisting of other parcels of agricultural land situated in Nueva Ecija.

On 10 September 1968, petitioner Carlos Rustia requested the PNB to release the mortgage existing on the Bulacan properties on the ground that the mortgage loan in the amount of P133,000.00 had already been reduced to P80,000.00, and, therefore, there existed sufficient Nueva Ecija properties to secure payment of the same. The PNB granted the request of petitioner Rustia. Thus, the loan which was originally in the amount of P80,000.00, then increased to P133,000.00 and again reduced to P80,000.00, was secured solely by the Nueva Ecija agricultural lands. It should be mentioned that the original loan (P80,000.00) was evidenced by a document entitled "Real Estate Mortgage" which was changed to "Amendment of Real Estate Mortgage with Additional Securities" when the additional loan (P53,000.00) was granted and additional properties were mortgaged.

In October 1968, petitioners applied for a second loan in the amount of P70,000.00 to mature on 27 October 1970. A document entitled "Real Estate Mortgage" was executed whereby real estate located in Azcarraga Street, Manila was given by petitioners as security for said second loan.

On 27 August 1970, petitioners wrote the PNB regarding the approaching maturity dates of the two (2) loans, namely: 3 September 1970 and 27 October 1970, respectively. The first loan was secured by Nueva Ecija agricultural lands while the second loan was secured by the Manila (Azcarraga) property. In their letter,

petitioners admitted that the second loan secured by the Manila (Azcarraga) property was a new loan and not a mere addition to their previous loan, and, in addition to such acknowledgement, they made the following requests:

- (i) Renewal or extension for another year to pay the existing balance of their total indebtedness after applying a partial payment of P25,000;
- (ii) Consolidation of the two (2) promissory notes to mature on or before 27 October 1971; and
- (iii) The release of all mortgaged agricultural properties in Nueva Ecija, thus leaving only the Manila (Azcarraga) property as security for the consolidated loans.

In answer to petitioners' requests, PNB approved only the consolidation of the two (2) loans, as shown by its letter to petitioners, dated 29 January 1971, imposing, however, the following conditions:

- (i) The original terms and conditions of the loan shall subsist;
- (ii) The consolidated account shall mature on 3 September 1971; and
- (iii) The consolidated account shall be subject to other conditions that may be imposed to protect the interest of PNB.

On 21 October 1971, petitioners offered to sell their agricultural lands in Nueva Ecija to the Land Bank of the Philippines (hereinafter referred to as Land Bank). On 10 November 1971, the Land Bank answered and informed the petitioners that: "In connection with your offer to sell your properties situated in x x x Nueva Ecija, of the mode of payment authorized under Agricultural Land Reform Code, as amended by RA No. 6389, and expressing the trust that you will now enter into a final negotiation with the bank (Land Bank) for the acquisition of your properties." [1]

Before the declaration of martial law by then President Marcos and before Presidential Decree No. 27 was signed into law on 21 October 1972, petitioners appealed anew for the acquisition by the Land Bank of their agricultural lands in Nueva Ecija.

In furtherance of their desire to sell to the Land Bank their agricultural lands located in Nueva Ecija, petitioners wrote a letter to the PNB dated 12 April 1972 reiterating their request for the release from mortgage of their Nueva Ecija properties due to pending negotiations with the Land Bank where, as a prerequisite, they were mandated to first settle the mortgage or encumbrance on said agricultural lands.

On 22 May 1972, PNB and petitioners entered into an agreement entitled "Amendment of Real Estate Mortgage" whereby petitioners' second loan was amended. The amendment consisted of increasing the loan amount of P70,000.00 to P120,320.00 in order to consolidate the two (2) loans into one (1) loan which was now secured solely by the Manila (Azcarraga) property. In effect, the first loan secured by the Nueva Ecija properties (agricultural lands) was terminated (paid off) and the second loan secured by the Manila (Azcarraga) property was increased to include the amount of the first loan. This necessitated the execution of a new mortgage agreement. Thereafter, or on 30 May 1972, the agricultural lands in Nueva Ecija were released from their mortgage to the PNB.

On 5 January 1976, petitioners transferred and assigned their rights over the Nueva Ecija lands (already released from the PNB mortgage) to the Land Bank, in consideration of which petitioners were paid in cash and in Land Bank bonds.

On 1 June 1977, the PNB issued Regulation No. 40-188-77 implementing Board Resolution Nos. 742 and 314, outlining the guidelines for the handling of Land Bank bonds, to wit:

"a)

Bonds offered as payment for loans not secured by land subject to agrarian reform shall be accepted at a discount, based on the bank's prevailing discount rates.

b)

Bonds issued to PNB in payment of outstanding loans secured solely by properties subjected to agrarian reform under PD 27 are acceptable on a one-to-one basis as provided in Special Circular No. 58-A-1974.

c)

Bonds issued in payment of loan accounts secured by multiple collaterals, a portion of which is subjected to agrarian reform, shall be accepted as follows:

(i)

at 100%, but only to the extent of the proportionate loan value of the collateral subjected to land reform in relation to the total loan value of all the collaterals;

(ii)

the balance of the Land Bank bonds may be accepted either as payment on a discounted basis, or substitute collaterals in lieu of the collateral to be released."^[2]

On 21 June 1977, the PNB wrote to petitioners demanding payment of the overdue balance of their loan still in the amount of P63,607.28. Petitioner Ramirez replied, seeking forbearance on the ground that petitioners were still in the process of obtaining an authoritative opinion with respect to the valuation of the Land Bank bonds that they were offering in payment of the loan. Petitioners, nonetheless, remitted to PNB the amount of P6,902.28, representing the interest on the loan.

On 23 September 1977, PNB replied, referring to its guidelines on the handling of Land Bank bonds as above-quoted. Thereafter, petitioners paid the PNB in Land Bank bonds (derived from the sale to the Land Bank of their agricultural lands in Nueva Ecija) to discharge their remaining loan balance of P63,607.28. The bonds were accepted by PNB but only upon a discount at the rate of forty percent (40%) of their par or face value.

On 10 May 1978, petitioners filed Civil Case No. 6365-P, a complaint to recover from the PNB a sum of money allegedly representing the excess payment of their loan obligation, due to the discounting of their Land Bank bonds by the PNB at the aforesaid rate of forty percent (40%), plus attorney's fees and exemplary damages.

The RTC in Civil Case No. 6365-P ordered PNB to pay petitioners the amount of P63,205.21 representing the discounted portion of the Land Bank bonds paid to PNB, with legal interest at twelve percent (12%) per annum from the filing of the complaint, attorney's fees of P6,320.52 and the costs of suit. Respondent PNB appealed the decision to the Court of Appeals. On 23 June 1988, as aforesaid, the Court of Appeals in CA-G.R. CV No. 10744,

reversed the decision of the Regional Trial Court and dismissed the complaint.

Hence, this petition.

The pivotal issue in this appeal is whether or not PNB has the right to discount the value of Land Bank bonds by forty percent (40%) of their face value upon its acceptance of said bonds from the petitioners in payment of their mortgage obligation.

Sec. 80 of the Code of Agrarian Reform of the Philippines (Republic Act 3844 as amended), as amended by Presidential Decree No. 251, provides:

"X X X X X X X X

In the event there is existing lien or encumbrance on the land in favor of any government lending institution at the time of acquisition by the bank (meaning Land Bank), the landowner shall be paid the net value of the land (i.e. the value of the land determined under Proclamation No. 27 minus the outstanding balance/s of the obligation/s secured by the lien/s or encumbrance/s), and the outstanding balance/s of the obligations to the lending institution/s shall be paid by the Land Bank in Land Bank bonds or other securities; existing charters of those institutions to the contrary notwithstanding. A similar settlement may be negotiated by the Land Bank in the case of obligations secured by liens or encumbrances in favor of private parties or institutions."

Petitioners contend that the Court of Appeals decision is not in accordance with three (3) Supreme Court rulings, namely:

a)

Gonzales v. GSIS, G.R. No. 51997, September 10, 1981, 107 SCRA 492,

b)

PNB v. Amores, G.R. No. 54551, November 9, 1987, 155 SCRA 445, and

c)

PNB vs. IAC, G.R. Nos. 62831-32, July 31, 1986, 143 SCRA 299

In Gonzales v. GSIS (107 SCRA 492), it was held that:

"These bonds (meaning Land Bank bonds) are deemed contracts and the obligations resulting therefrom fall within the purview of the non-impairment clause of the Constitution, and any impairment thereof may take any encroachment in any respect upon the obligation and cannot be permitted. Thus, the value of these bonds cannot be diminished by any direct or indirect act, particularly, since said bonds are fully guaranteed by the Government of the Republic of the Philippines. They are issued not in the open market nor for the primary purpose of raising funds or pooling financial resources but in the captive market of landowners and to facilitate the speedy transfer of lands to the tenant-farmers in support of the land reform program of the Government. They are not ordinary commercial papers in that sense subject to discounting."[3]

In the same Gonzales case, this Court ruled that:

"A real estate mortgage voluntarily constituted by the debtor on two or more parcels of land is one and indivisible. Each and every parcel under mortgage answers for the totality of the debt. Being indivisible, the full value of the one parcel being paid for by the Land Bank should be applied in full to the outstanding loan

obligation without any discounting."^[4]

The factual circumstances in the cited Gonzales case are, however, different from those of the case at bar. In the Gonzales case, the Land Bank bonds were not allowed to be discounted by the creditor bank because the land which was the subject of land reform was then mortgaged with PNB, and at the time Land Bank acquired the land, it paid the landowner and the PNB (mortgagee) in Land Bank bonds. In contrast, in the present case, the lands which were acquired by Land Bank and paid with Land Bank bonds, were not really under land reform nor encumbered with a mortgage in favor of PNB. In other words, at the time of acquisition by the Land Bank of the properties involved in this case, there was no longer any PNB mortgage lien thereon. Accordingly, under the facts of each case, the Gonzales doctrine would not appear applicable to the present suit.

As to the cited case of PNB v. Amores (155 SCRA 445), it was there held that -

"At this point, it must be stressed that Land Bank bonds are deemed contracts and the obligations resulting therefrom fall within the purview of the non-impairment clause of the Constitution and any impairment thereof becomes an encroachment upon the obligation itself which cannot be permitted.

Suffice it to mention that the petitioner is a government lending institution and as such it has the obligation to support unequivocally government programs already on stream and not to introduce its own interpretative policies which may thwart such programs or modify them to nothingness. This is specially compelling with regard to land reform, the great venture of the government."

Again we hold that the doctrine laid down in the Amores case is not applicable to the case at bar. The issue in the Amores case was whether or not the PNB, as creditor, could discount the Land Bank bonds given to it in payment of a mortgage, where the collateral involved was not entirely, but only partly bought by the Land Bank and paid for in Land Bank bonds. The Court resolved the issue by ordering PNB to accept the Land Bank bonds as payment without discounting. The property acquired by Land Bank which was paid in Land Bank bonds was the very same property used as collateral in the mortgage with PNB, although the property was not entirely bought by the Land Bank. In the case at bar, the properties acquired by the Land Bank were formerly mortgaged with PNB as collateral for petitioners' loan. However, petitioners had earlier requested their release from the mortgage to comply with the requirements for their purchase by Land Bank. Therefore, the properties involved in this case had been released from any mortgage at the time Land Bank acquired them with Land Bank bonds.

Petitioners also cite the case of PNB v. IAC (143 SCRA 299). The main issue in that case was whether or not the PNB, as mortgagee-creditor, should apply the face value of Land Bank bonds to the landowner's obligation in consonance with PD No. 251. The PNB loan was secured by a real estate mortgage over three (3) lots; however, only one of the three (3) lots was placed under Land Reform. The factual circumstances being similar to those in PNB v. Amores, this leaves us no alternative but to hold that the case is likewise inapplicable to the one at bar, due to factual differences.

There is no question that the properties involved in the cited cases were all encumbered agricultural lands at the time of their acquisition by the Land Bank. Such lands with existing mortgages in favor of a government lending institution were acquired under the land reform program; the landowners were paid directly, in Land Bank bonds, the net value of their lands as determined under P.D. No. 27 minus the outstanding balance of their obligations to the government lending institution. The latter was required to accept Land Bank bonds at face value in settlement of the land-owners' obligations. Thus, P.D. 27 effects emancipation of the tenant-farmer from his bondage to the soil while Sec. 80 of the Code of Agrarian Reform, as amended by PD 251, provides the mode of financing such emancipation.

It cannot be overlooked that, in the present case, the entire mortgage loan was originally secured partly by

agricultural lands in Nueva Ecija that were potentially subject to land reform. While it is true that at the time of payment of the petitioners' loan balance with the PNB, the mortgage on such agricultural lands had already been released, yet the fact remains that the release was secured by the petitioners purposely because of the requirement of the Land Bank that the lands should first be cleared of all liens and encumbrances before payment could be effected. In truth, there no longer existed any mortgage on the agricultural lands when they were sold to the Land Bank. But, the intention of the petitioners was all along to pay their mortgage account with the PNB from the proceeds of the sale to the Land Bank of their agricultural lands, and these proceeds were in the form of Land Bank bonds.

To afford relief to landowners and in order to give them liquidity so as to enable them to undertake other ventures which would contribute to national development, then President Marcos promulgated PD 251 enjoining the Land Bank on behalf of a landowner-debtor to satisfy or settle his outstanding obligation in favor of government lending institutions by payment in Land Bank bonds or other securities.

Land Bank bonds are certificates of indebtedness approved by the Monetary Board of the Central Bank, fully tax exempt both as to principal and interest, and bear interest at the rate of six percent (6%) per annum, redeemable at the option of the Land Bank at or before maturity, which in no case shall exceed twenty five (25) years.[5]

The PNB, a government lending institution, has chosen, under its guidelines, to accept Land Bank bonds without any discount only when the property acquired by the Land Bank is at the time of acquisition encumbered in favor of the government lending institution. We find, however, the imposition of a discounted value of forty percent (40%) of Land Bank bonds - as happened in this case - tantamount to effecting a watered-down bond instrument, thus defeating the intent of the law in constituting the bonds as effective payments to discharge the obligation with government lending institutions of landowners who sell their agricultural lands to the Land Bank to hasten land reform, let alone the fact that such discounting impairs the intrinsic value of such bonds which are guaranteed by no less than the Philippine Government.

The Land Bank bonds, besides being fully guaranteed by the government, are by express provision of Section 80 of the Code of Agrarian Reform of the Philippines, as amended by PD No. 251, six percent (6%) interest bearing. If the law has deemed this interest rate sufficient to compensate landowners for the change in the mode of payment of their agricultural lands from cash to bonds, this interest rate should also be a sufficient yield on the bonds when they are paid, instead of cash, to government lending institutions against the outstanding balances of landowners who sell their agricultural lands to the Land Bank in their desire to hasten the land reform program and speed up the emancipation of the tenant-farmer from his bondage to the soil.

If landowners are called to sacrifice in the interest of land reform, by their acceptance of Land Bank bonds in payment of their agricultural lands, government lending institutions should share in the sacrifice by accepting the same Land Bank bonds at their face value, as tendered by landowners in payment of their loans with such government lending institutions, as long as such Land Bank bonds are derived by landowners from the sale of their agricultural lands to the Land Bank.

Accordingly, we hold that the circumstances of the present case dictate that it would be more in keeping with justice and equity if the Land Bank bonds in question were accepted by the PNB on their face value or on a one-on-one basis (as distinguished from a forty percent (40%) discounted value).

WHEREFORE, petition is hereby GRANTED. The decision of the Court of Appeals is SET ASIDE and the decision of the trial court is REINSTATED. Without pronouncement as to costs.

SO ORDERED.

Melencio-Herrera, (Chairman), Paras, Sarmiento, and Regalado, JJ., concur.

[*] Penned by Justice Jose A.R. Melo, and concurred in by Justices Manuel C. Herrera and Jorge S. Imperial.

[*]* Penned by Judge Manuel V. Romillo, Jr.

[1] Rollo, p.27

[2] Rollo, p. 49

[3] Rollo, p. 10

[4] Gonzales v. GSIS, G.R. No. 51997, September 10, 1981, 107 SCRA 492

[5] Gonzales v. GSIS, G.R. No. 51997, September 10, 1981, 107 SCRA 493

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