

BUENAFLOR C. UMALI, MAURICIA M. VDA. DE CASTILLO, VICTORIA M. CASTILLO, BERTILLA C. RADA, MARIETTA C. ABAÑEZ, LEOVINA C. JALBUENA AND SANTIAGO M. RIVERA, PETITIONERS, VS. COURT ...

G.R. No. 89561. September 13, 1990

Ponente: REGALADO, J.

Read online (full-text search, related cases, audio case brief): <https://batas.org/library/g-r-no-89561/>

REGALADO, J.:

This is a petition to review the decision of respondent Court of Appeals, dated August 3, 1989, in CA-GR CV No. 15412, entitled "Buenaflor M. Castillo Umali, et al. vs. Philippine Machinery Parts Manufacturing Co., Inc., et al.,"[1] the dispositive portion whereof provides:

"WHEREFORE, viewed in the light of the entire record, the judgment appealed from must be, as it is hereby REVERSED.

In lieu thereof, a judgment is hereby rendered –

- 1) Dismissing the complaint, with costs against plaintiffs;
- 2) Ordering plaintiffs-appellees to vacate the subject properties; and
- 3) Ordering plaintiffs-appellees to pay upon defendants' counterclaims:
 - a) To defendant-appellant PM Parts: (i) damages consisting of the value of the fruits in the subject parcels of land of which they were deprived in the sum of P26,000.00 and (ii) attorney's fees of P15,000.00
 - b) To defendant -appellant Bormaheco: (i) expenses of litigation in the amount of P5,000.00 and (ii) attorney's fees of P15,000.00.

SO ORDERED."

The original complaint for annulment of title filed in the court a quo by herein petitioners included as party defendants the Philippine Machinery Parts Manufacturing Co., Inc. (PM Parts), Insurance Corporation of the Philippines (ICP), Bormaheco, Inc., (Bormaheco) and Santiago M. Rivera (Rivera). A Second Amended Complaint was filed, this time impleading Santiago M. Rivera as party plaintiff.

During the pre-trial conference, the parties entered into the following stipulation of facts:

"As between all parties:

- a) Plaintiff Buenaflor M. Castillo is the judicial administratrix of the estate of Felipe Castillo in Special Proceeding No. 4053, pending before Branch IX, CFI of Quezon (per Exhibit A) which intestate proceedings was instituted by Mauricia Meer Vda. de Castillo, the previous administratrix of the said proceedings prior to 1970 (per Exhibits A-1 and A-2) which case was filed in Court way back in 1964;

b) The four (4) parcels of land described in paragraph 3 of the Complaint were originally covered by TCT No. T-42104 and Tax Dec. No. 14134 with assessed value of P3,100.00; TCT No. T-32227 and Tax Dec. No. 14132, with assessed value of P5,130.00; TCT No. T-31752 and Tax Dec. No. 14135, with assessed value of P6,150.00; and TCT No. T-42103 with Tax Dec. No. 14133, with assessed value of P3,580.00 (per Exhibits A-2 and B, B-1 to B-3, C, C-1 to C-3);

c) That the above-enumerated four (4) parcels of land were the subject of the Deed of Extra-Judicial Partition executed by the heirs of Felipe Castillo (per Exhibit D) and by virtue thereof the titles thereto has (sic) been cancelled and in lieu thereof, new titles in the name of Mauricia Meer Vda. de Castillo and of her children, namely: Buenaflor, Bertilla, Victoria, Marietta and Leovina, all surnamed Castillo has (sic) been issued, namely: TCT No. T-12113 (Exhibit E); TCT No. T-13113 (Exhibit F); TCT No. T-13116 (Exhibit G); and TCT No. T-13117 (Exhibit H);

d) That mentioned parcels of land were submitted as guaranty in the Agreement of Counter-Guaranty with Chattel/Real Estate Mortgage executed on 24 October 1970 between Insurance Corporation of the Philippines and Slobec Realty Corporation represented by Santiago Rivera (Exhibit I);

e) That based on the Certificate of Sale issued by the Sheriff of the Province of Quezon in favor of Insurance Corporation of the Philippines it was able to transfer to itself the titles over the lots in question, namely: TCT No. T-23705 (Exhibit M), TCT No. T-23706 (Exhibit N), TCT No. T-23707 (Exhibit O) and TCT No. T-23708 (Exhibit P);

f) That on 10 April 1975, the Insurance Corporation of the Philippines sold to PM Parts the immovables in question (per Exhibit 6 for PM Parts) and by reason thereof, succeeded in transferring unto itself the titles over the lots in dispute, namely: per TCT No. T-24846 (Exhibit Q), per TCT No. T-24847 (Exhibit R), TCT No. T-24848 (Exhibit S), TCT No. T-24849 (Exhibit T);

g) On 26 August 1976, Mauricia Meer Vda. de Castillo sent her letter to Modesto N. Cervantes stating that she and her children refused to comply with his demands (Exhibit V-2);

h) That from at least the months of October, November and December 1970 and January 1971, Modesto N. Cervantes was the Vice-President of Bormaheco, Inc. later President thereof, and also he is one of the Board of Directors of PM Parts; on the other hand, Atty. Martin M. de Guzman was the legal counsel of Bormaheco, Inc., later Executive Vice-President thereof, and who also is the legal counsel of Insurance Corporation of the Philippines and PM Parts; that Modesto N. Cervantes served later on as President of PM Parts, and that Atty. de Guzman was retained by Insurance Corporation of the Philippines specifically for foreclosure purposes only;

i) Defendant Bormaheco, Inc. on November 25, 1970 sold to Slobec Realty and Development, Inc., represented by Santiago Rivera, President, one (1) unit Caterpillar Tractor D-7 with Serial No. 281114 evidenced by a contract marked Exhibit J and Exhibit I for Bormaheco, Inc.;

j) That the Surety Bond No. 14010 issued by co-defendant ICP was likewise secured by an Agreement with Counter-Guaranty, with Real Estate Mortgage executed by Slobec Realty & Development, Inc., Mauricia Castillo Meer, Buenaflor Castillo, Bertilla Castillo, Victoria Castillo, Marietta Castillo and Leovina Castillo, as mortgagors in favor of ICP which document was executed and ratified before notary public Alberto R. Navoa of the City of Manila on October 24, 1970;

k) That the property mortgaged consisted of four (4) parcels of land situated in Lucena City and covered by TCT Nos. T-13114, T-13115, T-13116 and T-13117 of the Register of Deeds of Lucena City;

l) That the tractor sold by defendant Bormaheco, Inc. to Slobec Realty & Development, Inc. was delivered to Bormaheco, Inc. on or about October 2, 1973, by Mr. Menandro Umali for purposes of repair;

m) That in August 1976, PM Parts notified Mrs. Mauricia Meer about its ownership and the assignment of Mr. Petronilo Roque as caretaker of the subject property;

n) That plaintiff and other heirs are harvesting fruits of the property (daranghita) which is worth no less than P1,000.00 per harvest.

"As between plaintiffs and defendant Bormaheco, Inc.:

o) That on 25 November 1970, at Makati, Rizal, Santiago Rivera, in representation of the Slobec Realty & Development Corporation executed in favor of Bormaheco, Inc., represented by its Vice-President Modesto N. Cervantes a Chattel Mortgage concerning one unit model CAT D-7 Caterpillar Crawler Tractor as described therein as security for the payment in favor of the mortgagee of the amount of P180,000.00 (per Exhibit K); that said document was superseded by another chattel mortgage dated January 23, 1971 (Exhibit 15);

p) On 18 December 1970, at Makati, Rizal, the Bormaheco, Inc., represented by its Vice-President Modesto Cervantes and Slobec Realty Corporation represented by Santiago Rivera executed the sales agreement concerning the sale of one (1) unit Model CAT D-7 Caterpillar Crawler Tractor as described therein for the amount of P230,000.00 (per Exhibit J) which document was superseded by the Sales Agreement dated January 23, 1971 (Exhibit 16);

q) Although it appears on the document entitled Chattel Mortgage (per Exhibit K) that it was executed on 25 November 1970, and in the document entitled Sales Agreement (per Exhibit J) that it was executed on 18 December 1970, it appears in the notarial register of the notary public who notarized them that those two documents were executed on 11 December 1970. The certified xerox copy of the notarial register of Notary Public Guillermo Aragonés issued by the Bureau of Records Management is hereto submitted as Exhibit BB. That said chattel mortgage was superseded by another document dated January 23, 1971;

r) That on 23 January 1971, Slobec Realty Development Corporation, represented by Santiago Rivera, received from Bormaheco, Inc. one (1) tractor Caterpillar Model D-7 pursuant to Invoice No. 33234 (Exhibits 9 and 9-A, Bormaheco, Inc.) and delivery receipt No. 10368 (per Exhibits 10 and 10-A for Bormaheco, Inc.);

s) That on 28 September 1973, Atty. Martin M. de Guzman, as counsel of Insurance Corporation of the Philippines purchased at public auction for said corporation the four (4) parcels of land subject of this case (per Exhibit L), and which document was presented to the Register of Deeds on 1 October 1973;

t) Although it appears that the realties in issue has (sic) been sold by Insurance Corporation of the Philippines in favor of PM Parts on 10 April 1975, Modesto N. Cervantes, formerly Vice-President and now President of Bormaheco, Inc., sent his letter dated 9 August 1976 to Mauricia Meer Vda. de Castillo (Exhibit V), demanding that she and her children should vacate the premises;

u) That the Caterpillar Crawler Tractor Model CAT D-7 which was received by Slobec Realty Development Corporation was actually reconditioned and repainted." [2]

We cull the following antecedents from the decision of respondent Court of Appeals:

"Plaintiff Santiago Rivera is the nephew of plaintiff Mauricia Meer Vda. de Castillo. The Castillo family are the owners of a parcel of land located in Lucena City which was given as security for a loan from the Development Bank of the Philippines. For their failure to pay the amortization, foreclosure of the said property was about to be initiated. This problem was made known to Santiago Rivera, who proposed to them the conversion into a subdivision of the four (4) parcels of land adjacent to the mortgaged property to raise the necessary fund. The idea was accepted by the Castillo family and to carry out the project, a Memorandum of Agreement (Exh. U, p. 127, Record) was executed by and between Slobec Realty and Development, Inc., represented by its President Santiago Rivera and the Castillo family. In this agreement, Santiago Rivera obliged himself to pay the Castillo family the sum of P70,000.00 immediately after the execution of the

agreement and to pay the additional amount of P400,000.00 after the property has been converted into a subdivision. Rivera, armed with the agreement, Exhibit U, approached Mr. Modesto Cervantes, President of defendant Bormaheco, and proposed to purchase from Bormaheco two (2) tractors Model D-7 and D-8. Subsequently, a Sales Agreement was executed on December 28, 1970 (Exh. J, p. 22, Record).

"On January 23, 1971, Bormaheco, Inc. and Slobec Realty and Development, Inc., represented by its President, Santiago Rivera, executed a Sales Agreement over one unit of Caterpillar Tractor D-7 with Serial No. 281114, as evidenced by the contract marked Exhibit '16'. As shown by the contract, the price was P230,000.00 of which P50,000.00 was to constitute a down payment, and the balance of P180,000.00 payable in eighteen monthly installments. On the same date, Slobec, through Rivera, executed in favor of Bormaheco a Chattel Mortgage (Exh. K, p. 29, Record) over the said equipment as security for the payment of the aforesaid balance of P180,000.00. As further security of the aforementioned unpaid balance, Slobec obtained from Insurance Corporation of the Phil. a Surety Bond, with ICP (Insurance Corporation of the Phil.) as surety and Slobec as principal, in favor of Bormaheco, as borne out by Exhibit '8' (p. 111, Record). The aforesaid surety bond was in turn secured by an Agreement of Counter-Guaranty with Real Estate Mortgage (Exhibit I, p. 24, Record) executed by Rivera as president of Slobec and Mauricia Meer Vda. de Castillo, Buenaflor Castillo Umali, Bertilla Castillo-Rada, Victoria Castillo, Marietta Castillo and Leovina Castillo Jalbuena, as mortgagors and Insurance Corporation of the Philippines (ICP) as mortgagee. In this agreement, ICP guaranteed the obligation of Slobec with Bormaheco in the amount of P180,000.00. In giving the bond, ICP required that the Castillos mortgage to them the properties in question, namely, four parcels of land covered by TCTs in the name of the aforementioned mortgagors, namely TCT Nos. 13114, 13115, 13116 and 13117 all of the Register of Deeds for Lucena City.

"On the occasion of the execution on January 23, 1971, of the Sales Agreement Exhibit '16', Slobec, represented by Rivera received from Bormaheco the subject matter of the said Sales Agreement, namely, the aforementioned tractor Caterpillar Model D-7, as evidenced by Invoice No. 33234 (Exhs. 9 and 9-A, p. 112, Record) and Delivery Receipt No. 10368 (Exhs. 10 and 10-A, p. 113). This tractor was known by Rivera to be a reconditioned and repainted one [Stipulation of Facts, Pre-trial Order, par. (u)].

"Meanwhile, for violation of the terms and conditions of the Counter-Guaranty Agreement (Exh. I), the properties of the Castillos were foreclosed by ICP. As the highest bidder with a bid of P285,212.00, a Certificate of Sale was issued by the Provincial Sheriff of Lucena City and Transfer Certificates of Title over the subject parcels of land were issued by the Register of Deeds of Lucena City in favor of ICP, namely, TCT Nos. T-23705, T-23706, T-23707 and T-23708 (Exhs. M to P, pp. 38-45). The mortgagors had one (1) year from the date of the registration of the certificate of sale, that is, until October 1, 1974, to redeem the property, but they failed to do so. Consequently, ICP consolidated its ownership over the subject parcels of land through the requisite affidavit of consolidation of ownership dated October 29, 1974, as shown in Exh. '22' (p. 138, Rec.). Pursuant thereto, a Deed of Sale of Real Estate covering the subject properties was issued in favor of ICP (Exh. 23, p. 139, Rec.).

"On April 10, 1975, Insurance Corporation of the Phil. (ICP) sold to Phil. Machinery Parts Manufacturing Co. (PM Parts) the four (4) parcels of land and by virtue of said conveyance, PM Parts transferred unto itself the titles over the lots in dispute so that said parcels of land are now covered by TCT Nos. T-24846, T-24847, T-24848 and T-24849 (Exhs. Q - T, pp. 46-49, Rec.).

"Thereafter, PM Parts, through its President, Mr. Modesto Cervantes, sent a letter dated August 9, 1976 addressed to plaintiff Mrs. Mauricia Meer Castillo requesting her and her children to vacate the subject property, who (Mrs. Castillo) in turn sent her reply expressing her refusal to comply with his demands.

"On September 29, 1976, the heirs of the late Felipe Castillo, particularly plaintiff Buenaflor M. Castillo Umali as the appointed administratrix of the properties in question filed an action for annulment of title before the then Court of First Instance of Quezon and docketed thereat as Civil Case No. 8085. Thereafter, they filed an

Amended Complaint on January 10, 1980 (p. 444, Record). On July 20, 1983, plaintiffs filed their Second Amended Complaint, impleading Santiago M. Rivera as a party plaintiff (p. 706, Record). They contended that all the aforementioned transactions starting with the Agreement of Counter-Guaranty with Real Estate Mortgage (Exh. I), Certificate of Sale (Exh. L) and the Deeds of Authority to Sell, Sale and the Affidavit of Consolidation of Ownership (Annexes F, G, H, I) as well as the Deed of Sale (Annexes J, K, L and M) are void for being entered into in fraud and without the consent and approval of the Court of First Instance of Quezon, (Branch IX) before whom the administration proceedings has been pending. Plaintiffs pray that the four (4) parcels of land subject hereof be declared as owned by the estate of the late Felipe Castillo and that all Transfer Certificates of Title Nos. 13114, 13115, 13116, 13117, 23705, 23706, 23707, 23708, 24846, 24847, 24848 and 24849 as well as those appearing as encumbrances at the back of the certificates of title mentioned be declared as a nullity and defendants to pay damages and attorney's fees (pp. 710-711, Record).

"In their amended answer, the defendants controverted the complaint and alleged, by way of affirmative and special defenses that the complaint did not state facts sufficient to state a cause of action against defendants; that plaintiffs are not entitled to the reliefs demanded; that plaintiffs are estopped or precluded from asserting the matters set forth in the Complaint; that plaintiffs are guilty of laches in not asserting their alleged right in due time; that defendant PM Parts is an innocent purchaser for value and relied on the face of the title before it bought the subject property (p. 744, Record)."[3]

After trial, the court a quo rendered judgment, with the following decretal portion:

"WHEREFORE, judgment is hereby rendered in favor of the plaintiffs and against the defendants, declaring the following documents:

Agreement of Counter-Guaranty with Chattel/Real Estate Mortgage dated October 24, 1970 (Exhibit I);

Sales Agreement dated December 28, 1970 (Exhibit J);

Chattel Mortgage dated November 25, 1970 (Exhibit K);

Sales Agreement dated January 23, 1971 (Exhibit 16);

Chattel Mortgage dated January 23, 1971 (Exhibit 17);

Certificate of Sale dated September 28, 1973 executed by the Provincial Sheriff of Quezon in favor of Insurance Corporation of the Philippines (Exhibit L);

null and void for being fictitious, spurious and without consideration. Consequently, Transfer Certificates of Title Nos. T-23705, T-23706, T-23707 and T-23708 (Exhibits M, N, O and P) issued in the name of Insurance Corporation of the Philippines, are likewise null and void.

The sale by Insurance Corporation of the Philippines in favor of defendant Philippine Machinery Parts Manufacturing Co., Inc., over said four (4) parcels of land and Transfer Certificates of Title Nos. T-24846, T-24847, T-24848 and T-24849 subsequently issued by virtue of said sale in the name of Philippine Machinery Parts Manufacturing Co., Inc., are similarly declared null and void, and the Register of Deeds of Lucena City is hereby directed to issue, in lieu thereof, transfer certificates of title in the names of the plaintiffs, except Santiago Rivera.

Orders the defendants jointly and severally to pay the plaintiffs moral damages in the sum of P10,000.00, exemplary damages in the amount of P5,000.00, and actual litigation expenses in the sum of P6,500.00.

Defendants are likewise ordered to pay the plaintiffs, jointly and severally, the sum of P10,000.00 for and as attorney's fees.

With costs against the defendants.

SO ORDERED." [4]

As earlier stated, respondent court reversed the aforequoted decision of the trial court and rendered the judgment subject of this petition.

Petitioners contend that respondent Court of Appeals erred:

1. In holding and finding that the transactions entered into between petitioner Rivera with Cervantes are all fair and regular and therefore binding between the parties thereto;
2. In reversing the decision of the lower court, not only based on erroneous conclusions of facts, erroneous presumptions not supported by the evidence on record, but also, holding valid and binding the supposed payment by ICP of its obligation to Bormaheco, despite the fact that the surety bond it issued had already expired when it opted to foreclose extrajudicially the mortgage executed by the petitioners;
3. In setting aside the finding of the lower court that there was necessity to pierce the veil of corporate existence; and
4. In reversing the decision of the lower court instead of affirming the same. [5]

I. Petitioners aver that the transactions entered into between Santiago M. Rivera, as President of Slobec Realty and Development Company (Slobec) and Modesto Cervantes, as Vice-President of Bormaheco, such as the Sales Agreement,[6] Chattel Mortgage[7] and the Agreement of Counter-Guaranty with Chattel/Real Estate Mortgage,[8] are all fraudulent and simulated and should, therefore, be declared null and void. Such allegation is premised primarily on the fact that contrary to the stipulations agreed upon in the Sales Agreement (Exhibit J), Rivera never made any advance payment, in the alleged amount of P50,000.00 to Bormaheco; that the tractor was received by Rivera only on January 23, 1971 and not in 1970 as stated in the Chattel Mortgage (Exhibit K); and that when the Agreement of Counter-Guaranty with Chattel/Real Estate Mortgage was executed on October 24, 1970, to secure the obligation of ICP under its surety bond, the Sales Agreement and Chattel Mortgage had not as yet been executed, aside from the fact that it was Bormaheco, and not Rivera, which paid the premium for the surety bond issued by ICP.

At the outset, it will be noted that petitioners' submission under the first assigned error hinges purely on questions of fact. Respondent Court of Appeals made several findings to the effect that the questioned documents are valid and binding-upon the parties, that there was no fraud employed by private respondents in the execution thereof, and that, contrary to petitioners' allegation, the evidence on record reveals that petitioners had every intention to be bound by their undertakings in the various transactions had with private respondents. It is a general rule in this jurisdiction that findings of fact of said appellate court are final and conclusive and, thus, binding on this Court in the absence of sufficient and convincing proof, inter alia, that the former acted with grave abuse of discretion. Under the circumstances, we find no compelling reason to deviate from this long-standing jurisprudential pronouncement.

In addition, the alleged failure of Rivera to pay the consideration agreed upon in the Sales Agreement, which clearly constitutes a breach of the contract, cannot be availed of by the guilty party to justify and support an action for the declaration of nullity of the contract. Equity and fair play dictates that one who commits a breach of his contract may not seek refuge under the protective mantle of the law.

The evidence of record, on an overall calibration, does not convince us of the validity of petitioners' contention that the contracts entered into by the parties are either absolutely simulated or downright fraudulent.

There is absolute simulation, which renders the contract null and void, when the parties do not intend to be bound at all by the same.[9] The basic characteristic of this type of simulation of contract is the fact that the apparent

contract is not really desired or intended to either produce legal effects or in any way alter the juridical situation of the parties. The subsequent act of Rivera in receiving and making use of the tractor subject matter of the Sales Agreement and Chattel Mortgage, and the simultaneous issuance of a surety bond in favor of Bormaheco, concomitant with the execution of the Agreement of Counter-Guaranty with Chattel/Real Estate Mortgage, conduce to the conclusion that petitioners had every intention to be bound by these contracts. The occurrence of these series of transactions between petitioners and private respondents is a strong indication that the parties actually intended, or at least expected, to exact fulfillment of their respective obligations from one another.

Neither will an allegation of fraud prosper in this case where petitioners failed to show that they were induced to enter into a contract through the insidious words and machinations of private respondents without which the former would not have executed such contract. To set aside a document solemnly executed and voluntarily delivered, the proof of fraud must be clear and convincing.[10] We are not persuaded that such quantum of proof exists in the case at bar.

The fact that it was Bormaheco which paid the premium for the surety bond issued by ICP does not per se affect the validity of the bond. Petitioners themselves admit in their present petition that Rivera executed a Deed of Sale with Right of Repurchase of his car in favor of Bormaheco and agreed that a part of the proceeds thereof shall be used to pay the premium for the bond.[11] In effect, Bormaheco accepted the payment of the premium as an agent of ICP. The execution of the deed of sale with a right of repurchase in favor of Bormaheco under such circumstances sufficiently establishes the fact that Rivera recognized Bormaheco as an agent of ICP. Such payment to the agent of ICP is, therefore, binding on Rivera. He is now estopped from questioning the validity of the suretyship contract.

II. Under the doctrine of piercing the veil of corporate entity, when valid grounds therefor exist, the legal fiction that a corporation is an entity with a juridical personality separate and distinct from its members or stockholders may be disregarded. In such cases, the corporation will be considered as a mere association of persons. The members or stockholders of the corporation will be considered as the corporation, that is, liability will attach directly to the officers and stockholders.[12] The doctrine applies when the corporate fiction is used to defeat public convenience, justify wrong, protect fraud, or defend crime,[13] or when it is made as a shield to confuse the legitimate issues,[14] or where a corporation is the mere alter ego or business conduit of a person, or where the corporation is so organized and controlled and its affairs are so conducted as to make it merely an instrumentality, agency, conduit or adjunct of another corporation.[15]

In the case at bar, petitioners seek to pierce the veil of, corporate entity of Bormaheco, ICP and PM Parts, alleging that these corporations employed fraud in causing the foreclosure and subsequent sale of the real properties belonging to petitioners. While we do not discount the possibility of the existence of fraud in the foreclosure proceedings, neither are we inclined to apply the doctrine invoked by petitioners in granting the relief sought. It is our considered opinion that piercing the veil of corporate entity is not the proper remedy in order that the foreclosure proceeding may be declared a nullity under the circumstances obtaining in the case at bar.

In the first place, the legal corporate entity is disregarded only if it is sought to hold the officers and stockholders directly liable for a corporate debt or obligation. In the instant case, petitioners do not seek to impose a claim against the individual members of the three corporations involved; on the contrary, it is these corporations which desire to enforce an alleged right against petitioners. Assuming that petitioners were indeed defrauded by private respondents in the foreclosure of mortgaged properties, this fact alone is not, under the circumstances, sufficient to justify the piercing of the corporate fiction, since petitioners do not intend to hold the officers and/or members of respondent corporations personally liable therefor. Petitioners are merely seeking the declaration of the nullity of the foreclosure sale, which relief may be obtained without having to disregard the aforesaid corporate fiction

attaching to respondent corporations. Secondly, petitioners failed to establish by clear and convincing evidence that private respondents were purposely formed and operated, and thereafter transacted with petitioners, with the sole intention of defrauding the latter.

The mere fact, therefore, that the businesses of two or more corporations are interrelated is not a justification for disregarding their separate personalities,[16] absent sufficient showing that the corporate entity was purposely used as a shield to defraud creditors and third persons of their rights.

III. The main issue for resolution is whether there was a valid foreclosure of the mortgaged properties by ICP. Petitioners argue that the foreclosure proceedings should be declared null and void for two reasons, viz.: (1) no written notice was furnished by Bormaheco to ICP anent the failure of Slobec in paying its obligation with the former, plus the fact that no receipt was presented to show the amount allegedly paid by ICP to Bormaheco; and (b) at the time of the foreclosure of the mortgage, the liability of ICP under the surety bond had already expired.

Respondent court, in finding for the validity of the foreclosure sale, declared:

"Now to the question of whether or not the foreclosure by the ICP of the real estate mortgage was in the exercise of a legal right, We agree with the appellants that the foreclosure proceedings instituted by the ICP was in the exercise of a legal right. First, ICP has in its favor the legal presumption that it had indemnified Bormaheco by reason of Slobec's default in the payment of its obligation under the Sales Agreement, especially because Bormaheco consented to ICP's foreclosure of the mortgage. This presumption is in consonance with pars. R and Q, Section 5, Rule 5,* New Rules of Court which provides that it is disputably presumed that private transactions have been fair and regular. Likewise, it is disputably presumed that the ordinary course of business has been followed. Second, ICP had the right to proceed at once to the foreclosure of the mortgage as mandated by the provisions of Art. 2071 Civil Code for these further reasons: Slobec, the principal debtor, was admittedly insolvent; Slobec's obligation becomes demandable by reason of the expiration of the period of payment; and its authorization to foreclose the mortgage upon Slobec's default, which resulted in the accrual of ICP's liability to Bormaheco. Third, the Agreement of Counter Guaranty with Real Estate Mortgage (Exh. I) expressly grants to ICP the right to foreclose the real estate mortgage in the event of 'non-payment or non-liquidation of the entire indebtedness or fraction thereof upon maturity as stipulated in the contract'. This is a valid and binding stipulation in the absence of showing that it is contrary to law, morals, good customs, public order or public policy. (Art. 1306, New Civil Code)." [17]

1. Petitioners asseverate that there was no notice of default issued by Bormaheco to ICP, which would have entitled Bormaheco to demand payment from ICP under the suretyship contract.

Surety Bond No. B-14010 which was issued by ICP in favor of Bormaheco, wherein ICP and Slobec undertook to guarantee the payment of the balance of P180,000.00 payable in eighteen (18) monthly installments on one unit of Model CAT D-7 Caterpillar Crawler Tractor, pertinently provides in part as follows:

"1. The liability of INSURANCE CORPORATION OF THE PHILIPPINES, under this BOND will expire Twelve (12) months from date hereof. Furthermore, it is hereby agreed and understood that the INSURANCE CORPORATION OF THE PHILIPPINES will not be liable for any claim not presented in writing to the Corporation within THIRTY (30) DAYS from the expiration of this BOND, and that the obligee hereby waives his right to bring claim or file any action against Surety and after the termination of one (1) year from the time his cause of action accrues." [18]

The surety bond was dated October 24, 1970. However, an annotation on the upper part thereof states: "NOTE: EFFECTIVITY DATE OF THIS BOND SHALL BE ON JANUARY 22, 1971." [19]

On the other hand, the Sales Agreement dated January 23, 1971 provides that the balance of P180,000.00 shall be payable in eighteen (18) monthly installments.[20] The Promissory Note executed by Slobec on even date in favor

of Bormaheco further provides that the obligation shall be payable on or before February 23, 1971 up to July 23, 1972, and that non-payment of any of the installments when due shall make the entire obligation immediately due and demandable.[21]

It is basic that liability on a bond is contractual in nature and is ordinarily restricted to the obligation expressly assumed therein. We have repeatedly held that the extent of a surety's liability is determined only by the clause of the contract of suretyship as well as the conditions stated in the bond. It cannot be extended by implication beyond the terms of the contract.[22]

Fundamental likewise is the rule that, except where required by the provisions of the contract, a demand or notice of default is not required to fix the surety's liability.[23] Hence, where the contract of suretyship stipulates that notice of the principal's default be given to the surety, generally the failure to comply with the condition will prevent recovery from the surety. There are certain instances, however, when failure to comply with the condition will not extinguish the surety's liability, such as a failure to give notice of slight defaults, which are waived by the obligee; or on mere suspicion of possible default; or where, if a default exists, there is excuse or provision in the suretyship contract exempting the surety for liability therefor, or where the surety already has knowledge or is chargeable with knowledge of the default.[24]

In the case at bar, the suretyship contract expressly provides that ICP shall not be liable for any claim not filed in writing within thirty (30) days from the expiration of the bond. In its decision dated May 25, 1987, the court a quo categorically stated that "(n)o evidence was presented to show that Bormaheco demanded payment from ICP nor was there any action taken by Bormaheco on the bond posted by ICP to guarantee the payment of plaintiffs' obligation. There is nothing in the records of the proceedings to show that ICP indemnified Bormaheco for the failure of the plaintiffs to pay their obligation." [25] The failure, therefore, of Bormaheco to notify ICP in writing about Slobec's supposed default released ICP from liability under its surety bond. Consequently, ICP could not validly foreclose the real estate mortgage executed by petitioners in its favor since it never incurred any liability under the surety bond. It cannot claim exemption from the required written notice since its case does not fall under any of the exceptions hereinbefore enumerated.

Furthermore, the allegation of ICP that it has paid Bormaheco is not supported by any documentary evidence. Section 1, Rule 131 of the Rules of Court provides that the burden of evidence lies with the party who asserts an affirmative allegation. Since ICP failed to duly prove the fact of payment, the disputable presumption that private transactions have been fair and regular, as erroneously relied upon by respondent Court of Appeals, finds no application to the case at bar.

2. The liability of a surety is measured by the terms of his contract, and, while he is liable to the full extent thereof, such liability is strictly limited to that assumed by its terms.[26] While ordinarily the termination of a surety's liability is governed by the provisions of the contract of suretyship, where the obligation of a surety is, under the terms of the bond, to terminate at a specified time, his obligation cannot be enlarged by an unauthorized extension thereof.[27] This is an exception to the general rule that the obligation of the surety continues for the same period as that of the principal debtor.[28]

It is possible that the period of suretyship may be shorter than that of the principal obligation, as where the principal debtor is required to make payment by installments.[29] In the case at bar, the surety bond issued by ICP was to expire on January 22, 1972, twelve (12) months from its effectivity date, whereas Slobec's installment payment was to end on July 23, 1972. Therefore, while ICP guaranteed the payment by Slobec of the balance of P180,000.00, such guaranty was valid only for and within twelve (12) months from the date of effectivity of the surety bond, or until January 22, 1972. Thereafter, from January 23, 1972 up to July 23, 1972, the liability of

Slobec became an unsecured obligation. The default of Slobec during this period cannot be a valid basis for the exercise of the right to foreclose by ICP since its surety contract had already been terminated. Besides, the liability of ICP was extinguished when Bormaheco failed to file a written claim against it within thirty (30) days from the expiration of the surety bond. Consequently, the foreclosure of the mortgage, after the expiration of the surety bond under which ICP as surety has not incurred any liability, should be declared null and void.

3. Lastly, it has been held that where the guarantor holds property of the principal as collateral surety for his personal indemnity, to which he may resort only after payment by himself, until he has paid something as such guarantor neither he nor the creditor can resort to such collaterals.[30]

The Agreement of Counter-Guaranty with Chattel/Real Estate Mortgage states that it is being issued for and in consideration of the obligations assumed by the Mortgagee-Surety Company under the terms and conditions of ICP Bond No. 14010 in behalf of Slobec Realty Development Corporation and in favor of Bormaheco, Inc.[31] There is no doubt that said Agreement of Counter-Guaranty is issued for the personal indemnity of ICP. Considering that the fact of payment by ICP has never been established, it follows, pursuant to the doctrine above adverted to, that ICP cannot foreclose on the subject properties.

IV. Private respondent PM Parts posits that it is a buyer in good faith and, therefore, it acquired a valid title over the subject properties. The submission is without merit and the conclusion is specious.

We have stated earlier that the doctrine of piercing the veil of corporate fiction is not applicable in this case. However, its inapplicability has no bearing on the good faith or bad faith of private respondent PM Parts. It must be noted that Modesto N. Cervantes served as Vice-President of Bormaheco and, later, as President of PM Parts. On this fact alone, it cannot be said that PM Parts had no knowledge of the aforesaid several transactions executed between Bormaheco and petitioners. In addition, Atty. Martin de Guzman, who is the Executive Vice-President of Bormaheco, was also the legal counsel of ICP and PM Parts: These facts were admitted without qualification in the stipulation of facts submitted by the parties before the trial court. Hence, the defense of good faith may not be resorted to by private respondent PM Parts which is charged with knowledge of the true relations existing between Bormaheco, ICP and herein petitioners. Accordingly, the transfer certificates of title issued in its name, as well as the certificate of sale, must be declared null and void since they cannot be considered altogether free of the taint of bad faith.

WHEREFORE, the decision of respondent Court of Appeals is hereby REVERSED and SET ASIDE, and judgment is hereby rendered declaring the following as null and void: (1) Certificate of Sale, dated September 28, 1973, executed by the Provincial Sheriff of Quezon in favor of the Insurance Corporation of the Philippines; (2) Transfer Certificates of Title Nos. T-23705, T-23706, T-23707 and T-23708 issued in the name of the Insurance Corporation of the Philippines; (3) the sale by Insurance Corporation of the Philippines in favor of Philippine Machinery Parts Manufacturing Co., Inc. of the four (4) parcels of land covered by the aforesaid certificates of title; and (4) Transfer Certificates of Title Nos. T-24846, T-24847, T-24848 and T-24849 subsequently issued by virtue of said sale in the name of the latter corporation.

The Register of Deeds of Lucena City is hereby directed to cancel Transfer Certificates of Title Nos. T-24846, T-24847, T-24848 and T-24849 in the name of Philippine Machinery Parts Manufacturing Co., Inc. and to issue in lieu thereof the corresponding transfer certificates of title in the name of herein petitioners, except Santiago Rivera.

The foregoing dispositions are without prejudice to such other and proper legal remedies as may be available to respondent Bormaheco, Inc. against herein petitioners.

SO ORDERED.

Melencio-Herrera, (Chairman), Paras, and Padilla, JJ., concur.
Sarmiento, J., on leave.

[1] Associate Justice Bienvenido C. Ejercito, ponente; Associate Justices Felipe B. Kalalo and Luis L. Victor, concurring; Petition, Annex B; Rollo, 60-74.

[2] Rollo, 45-49.

[3] Ibid., 61-64.

[4] Ibid., 58-59.

[5] Ibid., 14.

[6] Exh. 15-Bormaheco; Original Record, 481.

[7] Exh. 16-Bormaheco; *ibid.*, 482.

[8] Exh. I; Folder of Exhibits, 24.

[9] Arts. 1345 and 1346, Civil Code.

[10] *Arroyo, etc. vs. Granada, et al.*, 18 Phil. 484 (1911).

[11] Rollo, 17.

[12] Agbayani, *Commercial Laws of the Philippines*, Vol. 3, 1988 Ed., 18.

[13] *Koppel (Philippines), Inc. vs. Yatco, etc.*, 77 Phil. 496 (1946).

[14] *Telephone Engineering & Service Co., Inc. vs. Workmen's Compensation Commission, et al.*; 104 SCRA 354 (1981).

[15] *Koppel (Philippines), Inc. vs. Yatco, etc.*, *ante*.

[16] *Diatagon Labor Federation vs. Ople, et al.*, 101 SCRA 534 (1980).

* This should be Pars. (p) and (q), Sec. 5 (now Sec. 3), Rule 131.

[17] Rollo, 72-73.

[18] Exh. 8-Bormaheco; Folder of Exhibits, 111.

[19] *Id.*, *ibid*

[20] Exh. 16-Bormaheco; *ibid.*, 482.

[21] *Id.*, *Ibid.*, 484.

[22] *Philippine Commercial & Industrial Bank vs. The Hon. Court of Appeals, et al.*, 159 SCRA 24 (1988).

[23] 72 C.J.S. 577.

[24] 72 C.J.S. 636.

[25] Original Record, 1016.

[26] 72 C.J.S. 569.

[27] Op. cit., 597.

[28] Op. cit., 588.

[29] Tolentino, Civil Code of the Philippines, Vol. V, 1959 Ed., 436.

[30] Osborn vs. Noble, 46 Miss. 449, cited in 38 C.J.S. 1263.

[31] Exh. I; Folder of Exhibits, 24-25.

ABOUT BATAS.ORG

Study smarter at BATAS.org

The Philippine bar review and law-school companion built around how your brain actually remembers.

The complete Philippine law library - free for everyone.

More than 100,000 Supreme Court decisions, Republic Acts, and executive issuances - full-text searchable, browsable by category and year, and always free. No paywall, no login. This PDF came from it.

Audio case-brief lectures.

Any decision becomes a podcast-style lecture - facts, issues, ruling, and doctrine - with read-along highlighting and a hands-free presentation mode. Study while commuting, working out, or resting your eyes.

Bar review built on the science of memory.

Complete, sequenced courses for all eight bar subjects, narrated like podcasts and reinforced with retrieval practice and spaced review - the study techniques with the strongest evidence behind them.

The full law-school curriculum.

One subscription unlocks the entire J.D. curriculum - every subject, every lesson, with your progress tracked down to the paragraph so you can pick up exactly where you left off, on any device.

Mock exams that tell you where you stand.

Timed multiple-choice exams graded instantly, with per-subject score breakdowns and focus suggestions that point you at your weakest topics first.

A study planner that keeps you on pace.

Set your schedule and BATAS tells you every day whether you are on track for bar day - and exactly which lesson to take next.

Start free at <https://batas.org>

The law library is free forever - and your first lesson is one click away.

The text of this document is an official public record and remains in the public domain. Formatting, presentation, and compilation © 2026 batas.org.

Downloaded free from the batas.org Law Library. Share it freely - the library is free for every law student, bar reviewee, and practitioner.