

FIRST DIVISION

[G.R. No. 237506, July 28, 2020]

**SAN MIGUEL CORPORATION, PETITIONER, VS. LEONARA*
FRANCISCO VDA. DE TRINIDAD, SPS. TEODORICO F. TRINIDAD
AND SUSANA COSME-TRINIDAD, SPS. GEMMA F. TRINIDAD-
GANDIONCO* AND ALFREDO M. GANDIONCO,** JR., SPS.
MANUEL F. TRINIDAD AND RUBI REMIGIO TRINIDAD AND SPS.
GRACE F. TRINIDAD-MALOLOS AND BISMARCK D. MALOLOS,
ROBERTO N. GANDIONCO, RESPONDENTS.**

DECISION

REYES, J. JR., J.:

Through this Petition for Review on *Certiorari*^[1] under Rule 45 of the Rules of Court petitioner San Miguel Corporation (SMC) seeks a review of the Court of Appeals' (CA) Decision^[2] dated October 10, 2017 and Resolution^[3] dated February 14, 2018 which denied SMC's appeal, and, thus, affirmed the Regional Trial Court's (RTC) Decision dated August 28, 2014 which voided the real estate mortgages (REMs) and subsequent foreclosure over the subject properties for lack of authority to mortgage on the part of the attorney-in-fact.

Facts

Respondents Leonara Francisco Vda. De Trinidad, Teodorico F. Trinidad, Gemma Trinidad-Gandionco, Manuel F. Trinidad, and Grace F. Trinidad (collectively, Trinidad, *et al.*,) are the registered co-owners of two parcels of land located at Pamplona, Las Pinas City, and covered by Transfer Certificate of Title (TCT) Nos. T-6346 and T-6347. Respondent Gemma Trinidad-Gandionco (Gemma) is the registered owner of two parcels of land, likewise located at Pamplona, Las Pinas City, and covered by TCT Nos. T-5433 and T-52796.^[4]

Gemma's brother-in-law, respondent Roberto N. Gandionco (Roberto) opened a beer dealership for Masbate City with SMC. One of SMC's standard requirements for a dealership is the submission of sufficient collateral, in money or other valuable properties, to secure the beer stocks to be taken out from SMC.^[5]

As such, Roberto approached Gemma and asked for help with the submission of the collateral requirement. Gemma lent TCT No. T-52796, and allowed Roberto to offer the same as collateral. After three months, Roberto again approached Gemma for additional collateral as the value of the property covered by TCT No. T-52796 was insufficient. Gemma again acceded and lent TCT No. T-5433 to Roberto.^[6] In 2005, Roberto again asked Gemma if there is another property that can be offered to SMC so Roberto can obtain additional stocks. After obtaining the consent of Trinidad, *et al.*, Roberto was lent TCT No. T-6347. For the fourth time, in 2007, Roberto asked

from Gemma if he could offer another property to SMC so he could obtain additional stock. Again, after obtaining the consent of Trinidad, *et al.*, Roberto was lent TCT No. T-6346.

In these four instances, Gemma and Trinidad, *et al.*, executed the corresponding special power of attorney (SPA) in favor of Roberto, which were similarly-worded and varying only as to the property involved, as follows:

To offer as collateral, security or property bond with [SMC] a parcel of land located at Las Pinas City containing an area of square meters and all improvements thereon and covered by TCT No._____.

HEREBY GIVING AND GRANTING unto my/our said Attorney-in-Fact full power and authority whatsoever requisite necessary to be done in and about the premises as fully to all intents and purposes as I/WE might or could lawfully do if personally present and acting; and

HEREBY RATIFYING AND CONFIRMING all that my/our Attorney-in-Fact shall lawfully do or cause to be done under and by virtue of these presents.^[7]

When asked about the status of the certificates of title, Roberto would explain that the titles were still in SMC's possession which has yet to decide which title to accept as collateral. It was the understanding of Gemma and Trinidad, *et al.*, that should SMC accept their certificates of title as collateral, Roberto would bring the necessary documents from SMC which Gemma and Trinidad, *et al.*, would then sign.^[8]

However, using the SPAs, Roberto executed REMs over the properties covered by TCT Nos. T-6347 and T-5433, both in favor of SMC. These mortgages were annotated on the titles.

Meantime, Roberto availed of beer stocks from SMC which he regularly paid. However, in August 2007, 18 successive post-dated checks issued by Roberto were dishonored, leaving unpaid obligations amounting to about Seven Million Pesos (P7,000,000.00).^[9] When efforts to collect failed, SMC undertook to extra-judicially foreclose the REMs. At the foreclosure sale, SMC emerged as the highest bidder.

In 2008, Gemma and Trinidad, *et al.*, learned that Roberto's business had closed down, and that Roberto surreptitiously mortgaged two of their properties. Consequently, Gemma and Trinidad *et al.*, executed four revocations of the SPAs wherein they cancelled all the SPAs issued in favor of Roberto. They also wrote a letter to SMC informing the latter that the SPAs had been revoked.^[10] No reply was given by SMC until Gemma and Trinidad, *et al.*, learned of the foreclosure proceedings.

Aggrieved, Gemma and Trinidad, *et al.*, filed the complaint *a quo* for the annulment of mortgage and foreclosure sale and for the recovery of their titles.

In their Answer with Compulsory Counterclaim and Cross-claim, SMC argued that the revocations of the SPAs were belatedly made as the REMs were already constituted over the properties. Thus, SMC argued, at the time the REMs were made, the SPAs were still valid and constituted sufficient authority for Roberto to

enter into the mortgage contract. SMC also denied the allegation that they knew of Roberto's limited authority and that the REMs were entered into surreptitiously. Finally, SMC contended that Gemma and Trinidad, *et al.*, were guilty of laches as they only questioned the validity of the REMs when there was a threat of actual foreclosure.^[11]

Roberto did not file any answer, and, as such, was declared in default.^[12]

On August 28, 2014, the RTC rendered its Decision voiding the REMs, and, consequently, the extra-judicial foreclosure over the properties. According to the RTC, Roberto's authority is only to offer the subject properties as collateral. It held that SMC should have been placed on guard by the fact that the SPAs were long executed before the REMs were entered into.^[13] The RTC also directed SMC to return to Gemma and Trinidad, *et al.*, their Owner's Duplicate copies of TCT Nos. T-6346, T-6347, T-5433, and T-52796. It also directed SMC to pay moral damages, attorney's fees, and costs of suit.

SMC's cross-claim against Roberto was likewise dismissed by the RTC on account of SMC's failure to prove Roberto's liability. The RTC noted that SMC did not present evidence, such as receipts, to prove Roberto's liability, and, merely relied on the Certificate of Sale.

SMC's motion for reconsideration was similarly denied, thus, it brought the case to the CA on appeal.

SMC argued that the RTC erred in finding that the SPAs in favor of Roberto did not include the authority to mortgage or encumber the property. SMC also questioned the award of damages and attorney's fees, as well as the dismissal of its cross-claim against Roberto.

In its presently assailed Decision, the CA dismissed SMC's appeal. The CA held that a power of attorney must be strictly construed. The subject SPAs merely authorized Roberto to offer the subject properties as collateral, but not to enter into a mortgage contract. According to the CA, to interpret the SPAs as likewise giving Roberto the power to mortgage the property is to unduly enlarge the term "to offer." Because Roberto exceeded his authority, the CA concluded that no valid mortgage was constituted over the properties, and, as such, the ensuing extra-judicial foreclosures by SMC are likewise void.

As regards SMC's cross-claim against Roberto, the CA sustained its denial as SMC failed to introduce evidence in support of SMC's claim that Roberto was liable for the amount of P7,000,000.00. According to the CA, the Certificate of Sale does not prove Roberto's liabilities but merely establishes the fact that SMC was awarded as the highest bidder at the foreclosure sale.

Finally, the CA deleted the award for moral damages and attorney's fees for lack of proof that SMC acted in bad faith.

In disposal, the CA held:

WHEREFORE, premises considered, the Appeal is **DENIED**. The Assailed

Decision dated 28 August 2014 in Civil Case no. 08-0093 is **AFFIRMED with MODIFICATIONS** in so far as the award for moral damages in the amount of Five Hundred Thousand Pesos (Php 500,000.00) and the award of attorney's fees and costs of suit in the amount of Three Hundred Thousand Pesos (Php 300,000.00) are hereby **DELETED**.

SO ORDERED.

Thus, SMC's resort to the present petition raising the following:

Issues

Whether the [CA] erred when it affirmed the trial court's ruling that the SPAs did not include the authority to mortgage the property, despite the attendant circumstances in the case.

Whether the [CA] erred in denying the cross-claims of SMC against [Gandionco], considering that [Gandionco] was declared in default, applying Section 3 of Rule 9 of the Rules of Court.^[14]

Ruling of the Court

The petition is partly granted.

The SPAs specifically authorizing Roberto to offer the properties as collateral constitutes sufficient authority to enter into a contract of mortgage

For a contract of mortgage to be valid, the following essential requisites must be met: *first*, that the mortgage is constituted to secure the fulfillment of a principal obligation; *second*, the mortgagor is the absolute owner of the thing mortgaged; and third, the persons constituting the mortgage have the free disposal of their property, and in the absence thereof, that they be legally authorized for the purpose. Third persons not parties to the principal obligation may secure such obligation by mortgaging their own property.^[15]

In the instant case, it was Roberto who obtained certain obligations from SMC which he secured with the subject properties. The properties, are, in turn, owned by Gemma and Trinidad, *et al.*, who are third parties in relation to the principal obligation of Roberto to SMC. Since Gemma and Trinidad, *et al.*, were not the ones who personally mortgaged their properties to secure Roberto's obligations with SMC, the query to be had is whether Roberto was legally authorized to do so.

Article 1878 ^[16] of the Civil Code requires an SPA in cases where real rights over immovable property are created or conveyed. Here, the SPAs specifically authorized Roberto to "offer as collateral" to SMC the subject properties, to wit:

To offer as collateral, security or property bond with [SMC] a parcel of land located at Las Pifias City containing an area of square meters and all improvements thereon and covered by TCT No._____.

HEREBY GIVING AND GRANTING unto my/our said Attorney-in-Fact full power and authority whatsoever requisite necessary to be done in and about the premises as fully to all intents and purposes as I/WE might or could lawfully do if personally present and acting; and

HEREBY RATIFYING AND CONFIRMING all that my/our Attorney-in-Fact shall lawfully do or cause to be done under and by virtue of these presents.^[17]

The language of the subject SPAs are clear and unambiguous. In interpreting contracts, Article 1370 of the Civil Code unequivocally provides that "if the terms of a contract are clear and leave no doubt upon the intention of the contracting parties, the literal meaning of its stipulations shall control."^[18] This is similar to the "plain meaning rule" which assumes that the intent of the parties to an instrument is "embodied in the writing itself, and when the words are clear and unambiguous the intent is to be discovered only from the express language of the agreement."^[19]

Contrary to the CA's ruling, the phrase "to offer" the subject properties "as collateral, security or property bond with SMC," coupled with the "full power and authority" to do all that is necessary for all intents and purposes of the contract, is a specific and express authority to mortgage the subject properties in favor of SMC. This is so considering that the presentation of the TCTs by Roberto to SMC was for the purpose of complying with the collateral requirement for the dealership. As such, executing the real estate mortgages and registering the same with the register of deeds are well within the scope of the authority granted.

It is of no moment that it was the supposed "understanding" of the registered owners that "should SMC accept their certificates of title as collateral, Roberto would bring the necessary documents from SMC which [the registered owners] would then sign."^[20] Article 1900 of the Civil Code expressly states that "[s]o far as third persons are concerned, an act is deemed to have been performed within the scope of the agent's authority, if such act is within the terms of the power of attorney, as written, even if the agent has in fact exceeded the limits of his authority according to an understanding between the principal and the agent." Article 1902 likewise unequivocally states that "[p]rivate or secret orders and instructions of the principal do not prejudice third persons who have relied upon the power of attorney or instructions shown to them."

Assuming, however, that Roberto exceeded the limits of his authority under the SPA and such unauthorized acts were not ratified by Gemma and Trinidad, et al., the latter are still bound by the mortgages entered by Roberto under the doctrine of apparent authority. As explained in *Woodchild Holdings, Inc. v. Roxas Electric and Construction Co., Inc.*:^[21]

It bears stressing that apparent authority is based on estoppel and can arise from two instances: first, the principal may knowingly permit the agent to so hold himself out as having such authority, and in this way, the principal becomes estopped to claim that the agent does not have such authority; second, the principal may so clothe the agent with the indicia of authority as to lead a reasonably prudent person to believe that