

THIRD DIVISION

[G.R. No. 205068, March 06, 2019]

HEIRS OF RENATO P. DRAGON, REPRESENTED BY PATRICIA ANGELI D. NUBLA, PETITIONERS, VS. THE MANILA BANKING CORPORATION, RESPONDENT.

DECISION

LEONEN, J.:

Payment of the correct amount of filing fees should not be made contingent on the result of a case.

This is a Petition for Review on Certiorari^[1] assailing the June 27, 2012 Decision^[2] and December 5, 2012 Resolution^[3] of the Court of Appeals in CA-G.R. CV No. 92266. The Court of Appeals upheld the September 26, 2007 Decision^[4] of the Regional Trial Court, which ordered Renato P. Dragon (Dragon) to pay The Manila Banking Corporation (Manila Banking) P6,945,642.00, plus interest and penalties, as well as attorney's fees. The amount corresponded to several loans Dragon obtained from Manila Banking from 1976 to 1983.

From 1976 to 1982, Dragon obtained several loans from Manila Banking, which were evidenced by four (4) Promissory Notes: (1) Promissory Note No. 20669 dated March 30, 1976;^[5] (2) Promissory Note No. 20670 dated March 30, 1976;^[6] (3) Promissory Note No. 7426 dated June 28, 1979;^[7] and (4) Promissory Note No. 10973 dated February 26, 1982.^[8] The total principal amount of his loans was P6,945,642.00.^[9] Each Promissory Note stipulated a rate of interest, penalty interest in case of default, and attorney's fees, and due dates from 1976 to 1983.

In 1987, Manila Banking was placed under receivership by the Bangko Sentral ng Pilipinas. The bank's receiver sent Dragon several demand letters^[10] requiring him to pay his outstanding loans, the final letter being dated August 12, 1998.^[11] In a Statement of Account attached to the final letter, Manila Banking computed the amount Dragon owed as P44,038,995.00, consisting of the principal amount of P6,945,642.00, plus accrued interest, penalties, and attorney's fees as of July 31, 1998.^[12]

Dragon failed to pay his outstanding obligation. Thus, on January 7, 1999, Manila Banking filed before the Regional Trial Court a Complaint for collection of sum of money.^[13] The prayer of the Complaint read:

WHEREFORE, premises considered, it is most respectfully prayed that, after hearing, judgment be rendered ordering the defendant to pay plaintiff the above principal sum of P6,945,642, plus interests, penalties,

and attorney's fees computed up to the date of actual payment pursuant to the corresponding Promissory Notes. Plaintiff further prays for such other reliefs and remedies as may be deemed just and equitable in the premises.^[14]

In his Answer with Compulsory Counterclaim,^[15] Dragon claimed that he had already partially paid his debts to Manila Banking,^[16] and that his loans with the bank had been extinguished by novation. Allegedly, in 1984, Kalilid Wood Industries Corporation (Kalilid Wood), of which he was an officer and stockholder, wrote to Manila Banking requesting that Kalilid Wood's loans and the accounts of other persons, including that of Dragon's, be restructured. Manila Banking allegedly agreed to the restructuring, allowing Kalilid Wood to assume Dragon's loan obligations, including those covered by the four (4) Promissory Notes. Supposedly, this novation was confirmed in an April 22, 1991 Decision of the Regional Trial Court, Branch 58 of Makati City in Civil Case No. 46961 titled, "*The Manila Banking Corporation v. Builders Wood Products, Inc., Claudio J. Sanchez, Horacio Abrantes, and Renato P. Dragon*" which had become final and executory.^[17]

Dragon further claimed that Manila Banking's cause of action had prescribed, since it failed to demand payment on the Promissory Notes within 10 years from their due date. He alleged that he never received the demand letters sent by Manila Banking, which would have otherwise interrupted the prescriptive period.^[18]

He prayed that he be awarded P2,000,000.00 as moral damages for Manila Banking's act of dispossessing him of his properties for the settlement of accounts that could not be established, which allegedly caused him emotional trauma.^[19]

On September 26, 2007, the Regional Trial Court issued its Decision^[20] in favor of Manila Banking. The dispositive portion of the Decision read:

WHEREFORE, plaintiff having proved its claim by preponderance of evidence against defendant Renato P. Dragon, judgment is hereby rendered ordering defendant to pay plaintiff the following:

1. The amount of Php6,945,642.00 plus interest and penalties, the rates of which are indicated in the [preceding] paragraphs starting August 12, 1998 until the obligation is fully paid;
2. Attorney's fees equivalent to 5% of the total amount due;
3. Costs of suit.

SO ORDERED.^[21]

The Regional Trial Court noted that Dragon's defenses of prescription and novation were neither pleaded in his Answer nor raised in a motion to dismiss.^[22] Even if it could have taken cognizance of these defenses, the Regional Trial Court found that Manila Banking's cause of action had not prescribed and that the obligations were not novated. It held that Manila Banking's cause of action began to accrue only on August 12, 1998, when Dragon refused to pay, and not on the maturity dates stated in the promissory notes.^[23]

Further, the Regional Trial Court found that Dragon could not prove that the obligations had been novated. It ruled that the April 22, 1991 Decision of the Regional Trial Court in Civil Case No. 46961 could not be proof of the alleged novation since the facts and subject matter of that case were different from this case.^[24]

Nonetheless, the Regional Trial Court held that it could only order Dragon to pay the amount of P6,945.642.00, representing his principal obligation, plus the interest and penalty charges, as stipulated in the Promissory Notes, and not P48,028,268.98, per the Statement of Account submitted by Manila Banking. During trial, Manila Banking failed to submit documents to justify or support the computation in the Statement of Account.^[25]

Both parties filed Motions for Reconsideration of the Regional Trial Court September 26, 2007 Decision.^[26] Notably, in his Reply and Supplemental Opposition to Manila Banking's Motion for Partial Reconsideration,^[27] Dragon raised for the first time the issue of the trial court's lack of jurisdiction over the Complaint. He alleged that Manila Banking willfully and deliberately evaded payment of the correct docket fees for the amounts it claimed.^[28]

In its April 3, 2008 Order,^[29] the Regional Trial Court denied both parties' Motions. As to the issue of docket fees, it held that this Court's ruling in *Sun Insurance Office, Ltd. v. Asuncion*^[30] applied; hence, there was no need to resolve it.^[31]

Upon appeal by both parties, the Court of Appeals, in its June 27, 2012 Decision,^[32] affirmed the Regional Trial Court September 26, 2007 Decision and April 3, 2008 Order.

As to Manila Banking, the Court of Appeals affirmed the trial court's finding that since the Statement of Account was not substantiated, the amount to be considered should only be P6,945.642.00, plus the stipulated interest and penalty charges.^[33]

As to Dragon, the Court of Appeals held that he proved neither novation nor prescription. By failing to raise these defenses in his Answer and before the termination of pre-trial, Dragon waived them in accordance with Rule 9, Section 1 of the Rules of Court.^[34]

Moreover, the Court of Appeals found that the correspondence between Manila Banking and Kalilid Wood could not serve as basis for Dragon's claim of novation. Manila Banking's reply to Kalilid Wood's request to restructure the loans did not expressly state that Dragon had been released from his obligations under the Promissory Notes, or that there was an agreement that Kalilid Wood would assume Dragon's obligations under the Promissory Notes. Since novation is never presumed, but must be shown through an express agreement or by the parties' intent, the Court of Appeals held that Dragon failed to prove that novation had extinguished his obligations to Manila Banking.^[35]

Similarly, the Court of Appeals ruled that the April 22, 1991 Decision of the Regional

Trial Court in Civil Case No. 46961 could not serve as the "law of the case"^[36] for this case. That Decision, it held, never mentioned or alluded to the Promissory Notes for which Manila Banking was now demanding payment. The transaction in that case involved a different transaction that Kalilid Wood and Dragon had entered into.^[37]

Dragon's defense of prescription was, likewise, not given credence by the Court of Appeals. It found that the 10-year prescriptive period on the enforcement of the Promissory Notes, which matured from 1982 to 1983, was interrupted by Manila Banking's demand letters to Dragon in November 1988, October 1991, February 1993, November 1994, January 1996, and August 1998. It did not give credence to Dragon's claim that he never received the demand letters, as he admitted in his Answer that they had been sent to him. Dragon also failed to specifically deny Manila Banking's allegation that he received the demand letters.^[38]

In its December 5, 2012 Resolution,^[39] the Court of Appeals denied both parties' Motions for Reconsideration. In addition to its earlier ruling, the Court of Appeals found that the deficient payment of docket fees did not automatically result in the case's dismissal as the trial court may still allow payment of the difference within a reasonable period, but before the expiry of the reglementary period. The deficiency could also be a lien on the judgment award. It ruled that the claimed interests, penalties, and attorney's fees could not be determined with certainty until the resolution of the case.^[40]

On January 22, 2013, the Heirs of Dragon, represented by Patricia Angeli D. Nubia (Heirs of Dragon), filed before this Court a Notice of Death with Motion for Substitution of Petitioner and a Motion for Extension of Time to File Petition for Review under Rule 45.^[41] The Heirs of Dragon stated that Dragon died on October 22, 2012 and under Rule 3, Section 16 of the Rules of Court, his counsel informed this Court of this fact and moved for the substitution of parties. They further prayed for an additional 30 days within which to file their Petition for Review.

In its February 18, 2013 Resolution,^[42] this Court granted the Motion for Substitution and Motion for Extension of Time.

On February 21, 2013, the Heirs of Dragon filed their Petition for Review on Certiorari,^[43] assailing the June 27, 2012 Decision and December 5, 2012 Resolution of the Court of Appeals.

Petitioners argue that the Regional Trial Court had no jurisdiction to award Manila Banking's claims due to insufficient payment of docket fees. Manila Banking only paid P34,975.75 corresponding to its P6,945,642.00 claim in its Complaint. However, as shown by the Statement of Account attached to the Complaint, the true amount it claimed was P44,038,995.00. Petitioners claim that Manila Banking concealed the true amount it claimed to mislead the trial court's clerk of court and, thus, avoid paying the correct docket fees.^[44]

For petitioners, *Sun Insurance Office* is inapplicable to this case. In *Sun Insurance Office*, the amount of damages could be inferred from the body of the complaint, and the plaintiff indicated willingness to abide by the rules by paying the additional fees when he amended his complaint, even without an order from the court. Here,

Manila Banking knew the exact amount that it wanted to collect by way of interest, penalties, and attorney's fees; yet, it did not state these in its Complaint's prayer.^[45]

They argue that the applicable case is *Tacay v. Regional Trial Court of Tagum, Davao del Norte*,^[46] where this Court held that the phrase "awards of claims not specified in the pleading" should only refer to "damages arising after the filing of the complaint or similar pleading."^[47]

Further, petitioners claim that the April 22, 1991 Decision of the Regional Trial Court in Civil Case No. 46961 settled the novation of Dragon's obligations to Manila Banking. They point out that in the proceedings in Civil Case No. 46961, Dragon presented two (2) letters, dated November 14, 1984 and September 19, 1984, which the trial court found to be proof that Builders Wood Products, Inc. and Dragon as guarantor were replaced by Kalilid Wood, the new debtor. Here, Dragon again offered these letters before the Regional Trial Court to prove that there was a consolidation of his loan accounts to Kalilid Wood's loan accounts.^[48]

Petitioners argue that the Court of Appeals was incorrect in finding that the April 22, 1991 Decision of the Regional Trial Court in Civil Case No. 46961 did not cover the Promissory Notes. They claim that the Promissory Notes were part of the obligations that Kalilid Wood assumed when it proposed the loan restructuring in 1984 even though they were not specifically stated in Civil Case No. 46961. For them, since the Promissory Notes all bore dates prior to 1984, they were necessarily included in the loan restructuring.^[49]

Finally, petitioners argue that Manila Banking's cause of action had prescribed, claiming that Dragon never admitted to receiving the demand letters allegedly sent by Manila Banking, which would have interrupted the prescriptive period.^[50]

On April 3, 2013, this Court ordered Manila Banking to comment on the Petition.^[51]

In its Comment filed on June 10, 2013,^[52] respondent claims that the Petition raises issues which constitute questions of fact, namely: (1) whether respondent paid the correct docket fees; (2) whether novation took place; and (3) whether its cause of action had prescribed. These issues, it avers, are improper in a Rule 45 petition, which only involves questions of law. Moreover, petitioners failed to prove that any of the exceptions, which would allow this Court to resolve a question of fact, exist.^[53]

Respondent points out that the issues raised in the Petition were never raised during pre-trial in the Regional Trial Court. For being belatedly raised, these defenses should be waived. In particular, petitioners were estopped from questioning the non-payment of correct docket fees since they only raised this issue after the Regional Trial Court rendered its September 26, 2007 Decision against Dragon.^[54]

Respondent further claims that it paid the correct amount of docket fees for the Complaint based on the principal amount of P6,945,642.00. It argues that it was impossible to compute the interests, penalties, and attorney's fees it should claim because the date of actual payment by Dragon was uncertain at the time of the