

## SECOND DIVISION

[ G.R. No. 201436, July 11, 2016 ]

**SPOUSES MAMERTO AND ADELIA\* TIMADO, PETITIONERS, VS. RURAL BANK OF SAN JOSE, INC., TEDDY MONASTERIO, IN HIS CAPACITY AS ITS PRESIDENT/MANAGER, AND ATTY. AVELINO SALES, RESPONDENTS.**

### DECISION

**BRION, J.:**

We resolve the petition for review on *certiorari*<sup>[1]</sup> assailing the March 30, 2012 decision<sup>[2]</sup> of the Court of Appeals (CA) in CA-G.R. CV No. 89866 entitled "*Spouses Mamerto Timado and Delia Timado v. Rural Bank of San Jose, Inc., Teddy Monasterio, in his capacity as its Manager, and Gilbert Passion,*" that affirmed with modification the October 31, 2006 Regional Trial Court (RTC) joint decision in Civil Case No. IR-2974 and Special Civil Action No. IR-3187.

The CA decision affirmed the RTC's decision dismissing the complaint for reformation of instruments and the petition for indirect contempt filed by spouses Mamerto and Delia Timado (*petitioners*) against Rural Bank of San Jose, Inc. (*Rural Bank*) and Teddy Monasterio, in his capacity as Rural Bank's Manager (collectively as *respondents*), and awarded them exemplary damages, attorney's fees, and costs of litigation.

### The Factual Antecedents

On August 15, 1994, the petitioners obtained a loan from Rural Bank amounting to P178,000.00<sup>[3]</sup> As security for the loan, they executed a real estate mortgage over a parcel of land (*subject property*) located in Nabua, Camarines Sur, and a chattel mortgage over one (1) unit of rice mill machinery with accessories and one (1) unit of diesel engine in favor of the bank.<sup>[4]</sup>

The petitioners eventually failed to pay their loan amortizations. As of August 27, 1997, their outstanding obligation to Rural Bank amounted to P125,700.00.<sup>[5]</sup> Consequently, the bank informed the petitioners of its intention to foreclose the real estate and chattel mortgages to cover the unpaid balance.<sup>[6]</sup>

On April 1, 1998, the petitioners filed a **complaint for reformation of instruments**<sup>[7]</sup> with prayer for injunction and temporary restraining order and damages (*reformation of instruments case*) against the respondents before the RTC, Branch 35, Iriga City. *No writ of injunction or temporary restraining order was ever issued by the RTC.*

On April 6, 1998, Rural Bank proceeded with the extrajudicial foreclosure of the real

estate mortgage and sold the property at a public auction where it emerged as the highest bidder.<sup>[8]</sup> The provisional deed of sale was registered with the Office of the Provincial Register of Camarines Sur.<sup>[9]</sup> The petitioners failed to redeem the property within the one-year redemption period.<sup>[10]</sup> As a result, the title was consolidated in Rural Bank's name and a definite certificate of sale was issued in its favor.<sup>[11]</sup>

On November 9, 2000, the petitioners filed a **petition for indirect contempt with damages**<sup>[12]</sup> (*indirect contempt case*) against the respondents, alleging that the latter had pre-empted judicial authority by foreclosing the mortgages and selling the properties at a public auction during the pendency of the reformation of instruments case.

On February 7, 2002, while the reformation of instruments and indirect contempt cases were pending, Rural Bank filed an *ex-parte* **petition for issuance of writ of possession**<sup>[13]</sup> over the subject property. Because of this, the petitioners filed their third petition for indirect contempt.<sup>[14]</sup>

The trial court subsequently ordered<sup>[15]</sup> the consolidation of the reformation of instruments and the indirect contempt cases, and the dismissal<sup>[16]</sup> of the second and third petitions for indirect contempt.

In its joint decision<sup>[17]</sup> dated October 31, 2006, the RTC dismissed the complaint for reformation of instruments and petition for indirect contempt filed by the petitioners and ordered the Clerk of Court to issue a writ of possession in favor of the respondents. It also awarded damages as follows:<sup>[18]</sup>

WHEREFORE, premises considered, a joint decision is hereby rendered, as follows:

I. In Civil Case No. IR-2974 - against plaintiffs spouses Mamerto Timado and Delia Timado and in favor of defendants Rural Bank of San Jose, Inc., and Teddy Monasterio, in his capacity as its manager, to wit:

1. Dismissing the amended complaint;
2. On defendants' counterclaim, condemning plaintiff spouses:
  - a. To pay defendant Teddy Monasterio the amount of **P500,000.00 as moral damages**, and **P300,000.00 as exemplary damages**;
  - b. To pay defendants Rural Bank of San Jose, Inc. and Teddy Monasterio the amount of **P50,000.00 for legal counsel's acceptance fee** and **P1,500.00 per appearance of counsel**; and,
  - c. To pay defendants Rural Bank of San Jose, Inc., and Teddy Monasterio other expenses of litigation and/or cost

of suit.

II. In Spec. Civil Action No. IR-3187 - against petitioners spouses Mamerto Timado and Delia Timado and in favor of respondents Rural Bank of San Jose, Inc., Teddy Monasterio, and Atty. Avelino V. Sales, Jr., to wit:

1. Dismissing the petition;

2. Condemning petitioners spouses Mamerto Timado and Delia Timado:

1. To pay respondent Teddy Monasterio the amount of **P200,000.00 as moral damages** and **P50,000.00 as exemplary damages**; and,
2. To pay respondents Rural Bank of San Jose, Inc., and Teddy Monasterio the amount of **P50,000.00 for the services of counsel.**<sup>[19]</sup>

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On appeal, the CA affirmed with modification the October 31, 2006 RTC decision. In its decision dated March 30, 2012, the appellate court found the dismissal of the case proper, as well as the RTC's issuance of a writ of possession in favor of the respondents. However, it *deleted the award of moral damages for lack of legal justification* and *reduced the amount of exemplary damages* awarded in Civil Case No. IR-2974 to P100,000.00.<sup>[20]</sup>

The petitioners raise the following issues for this Court's resolution: 1) whether the award of exemplary damages is proper, considering the CA's deletion of the award of moral damages; and 2) whether the award of attorney's fees is supported by the factual and legal premises in the text of the RTC decision.

### **The Court's Ruling**

**We find the petition partly meritorious.**

Exemplary or corrective damages are imposed by way of example or correction for the public good, *in addition to* moral, temperate, liquidated, or compensatory damages.<sup>[21]</sup> The award of exemplary damages is allowed by law as a warning to the public and as a deterrent against the repetition of socially deleterious actions.<sup>[22]</sup>

The requirements for an award of exemplary damages to be proper are as follows:<sup>[23]</sup>

*First*, they may be imposed by way of example or correction **only in addition**, among others, to compensatory damages, and cannot be recovered as a matter of right, their determination depending upon the amount of compensatory damages that may be awarded to the claimant.