

SECOND DIVISION

[G.R. No. 201074, October 19, 2016]

SPOUSES RAMON SY AND ANITA NG, RICHARD SY, JOSIE ONG, WILLIAM SY AND JACKELINE DE LUCIA, PETITIONERS, VS. WESTMONT BANK (NOW UNITED OVERSEAS BANK PHILIPPINES) AND PHILIPPINE DEPOSIT INSURANCE CORPORATION, AS ASSIGNEE OF UNITED OVERSEAS BANK PHILIPPINES, RESPONDENTS.

DECISION

MENDOZA, J.:

This is a Petition for Review on *Certiorari* seeking to reverse and set aside the August 4, 2011 Decision^[1] and the March 19, 2012 Resolution^[2] of the Court of Appeals (CA) in CA-G.R. CV No, 90425, which affirmed the November 9, 2007 Decision^[3] and February 6, 2008 Order^[4] of the Regional Trial Court, Branch 12, Manila (RTC) in Civil Case No. 99-95945.

The Facts

The present case stemmed from a Complaint for Sum of Money,^[5] dated August 30, 1999, filed by respondent Westmont Bank (*Westmont*), now United Overseas Bank Philippines (*UOBP*), against petitioners Spouses Ramon Sy and Anita Ng, Richard Sy, Josie Ong, William Sy, and Jackeline de Lucia (*petitioners*) before the RTC.

Westmont alleged that on October 21, 1997, petitioners, doing business under the trade name of Moondrops General Merchandising (*Moondrops*), obtained a loan in the amount of P2,429,500.00, evidenced by Promissory Note No. GP-5280^[6] (*PN 5280*), payable on November 20, 1997. Barely a month after, or on November 25, 1997, petitioners obtained another loan from Westmont Bank in the amount of P4,000,000.00, evidenced by Promissory Note No. GP-5285^[7] (*PN 5285*), payable on December 26, 1997. Disclosure Statements on the Loan/Credit Transactions^[8] were signed by the parties. Earlier, a Continuing Suretyship Agreement,^[9] dated February 4, 1997, was executed between Westmont and petitioners for the purpose of securing any future indebtedness of Moondrops.

Westmont averred that petitioners defaulted in the payment of their loan obligations. It sent a Demand Letter,^[10] dated August 27, 1999, to petitioners, but it was unheeded. Hence, Westmont filed the subject complaint.

In their Answer,^[11] petitioners countered that in August 1997, Ramon Sy and Richard Sy applied for a loan with Westmont Bank, through its bank manager William Chu Lao (*Lao*). According to them, Lao required them to sign blank forms of promissory notes and disclosure statements and promised that he would notify them

immediately regarding the status of their loan application.

In September 1997, Lao informed Ramon Sy and Richard Sy that their application was disapproved. He, however, offered to help them secure a loan through Amado Chua (*Chua*), who would lend them the amounts of P2,500,000.00 and P4,000,000.00, both payable within three (3) months. Ramon Sy and Richard Sy accepted Lao's offer and received the amounts of P2,429,500.00 and P3,994,000.00, respectively, as loans from Chua. Petitioners claimed that they paid Chua the total amount of their loans.

Petitioners insisted that their loan applications from Westmont were denied and it was Chua who lent them the money. Thus, they contended that Westmont could not demand the payment of the said loans.

In the pre-trial conference, the parties agreed on one issue - whether or not the defendants obtained loans from Westmont in the total amount of P6,429,500.00.^[12] During trial, Westmont presented, among others, its employee Consolacion Esplana, who testified that the proceeds of the loan were credited to the account of Moondrops per its loan manifold.^[13] Westmont, however, never offered such loan manifold in evidence.^[14]

On the other hand, petitioners presented a Cashier's Check,^[15] dated October 21, 1997, in the amount of P2,429,500.00, purchased from Chua, to prove that the said loan was obtained from Chua, and not from Westmont. The cashier's check for the subsequent loan of P4,000,000.00 could not have been obtained from Westmont.

The RTC Ruling

In its decision, dated November 9, 2007, the RTC ruled in favor of Westmont. It held that Westmont's cause of action was based on PN 5280 and PN 5285, the promissory notes executed by petitioners. The RTC opined that petitioners admitted the genuineness and due execution of the said actionable documents because they failed to make a specific denial in the answer. It added that it should be presumed that the two (2) loan transactions were fair and regular; that the ordinary course of business was followed; and that they were issued for a sufficient consideration.

The RTC underscored that Ramon Sy never took any steps to have the promissory notes cancelled and annulled, which led to the conclusion that their obligations to Westmont were valid and binding. The *fallo* of the decision reads:

WHEREFORE, the foregoing premises considered, judgment is hereby rendered in favor of plaintiff WESTMONT BANK (now United Overseas Bank) and against defendants Spouses Ramon Sy and Anita Ng, Richard Sy, Josie Ong, William Sy and Jackeline De Lucia, and to pay plaintiff the following amounts, as follows:

1. P20,573,948.66, representing the outstanding amounts due on the aforementioned loan accounts as of February 15, 2001;
2. Interests and penalty charges due thereon as stipulated under the respective promissory notes from and after February 15, 2001, until

- fully paid;
- 3. 20% of the total outstanding sum, as and by way of attorney's fees; and
- 4. Costs of suit.

SO ORDERED.^[16]

Petitioners moved for reconsideration, arguing that it had sufficiently denied the genuineness and due execution of the promissory notes in their answer.

In its Order, dated February 6, 2008, the RTC repeated that petitioners were deemed to have admitted the genuineness and due execution of the actionable documents. It, however, modified the dispositive portion of its decision as follow:

WHEREFORE, the foregoing premises considered, judgment is hereby rendered in favor of plaintiff WESTMONT BANK (now United Overseas Bank) and against defendants Spouses Ramon Sy and Anita Ng, Richard Sy, Josie Ong, William Sy and Jackeline De Lucia, and to pay plaintiff the following amounts, as follows:

1. On Promissory Note No. PN-GP 5280:
 - a) The sum of Two Million Four Hundred Twenty Nine Thousand Five Hundred Pesos (P2,429,500.00), representing the principal amount of the promissory note;
 - b) The sum of Seven Hundred Twenty Eight Thousand Eight Hundred Fifty Pesos (P728,850.00), representing interest due on the promissory note payable on November 20,1997;
 - c) The above amounts shall collectively earn interest at the rate of thirty-six (36) percent *per annum* by way of liquidated damages, reckoned from November 20,1997, until fully paid.
2. On Promissory Note No. PN-GP 5285:
 - a) The sum of Four Million Pesos (P4,000,000.00), representing the principal amount of the promissory note;
 - b) The sum of One Million One Hundred Sixty Thousand Pesos (P1,160,000.00), representing interest due on the promissory note payable on December 26,1997;
 - c) The above amounts shall collectively earn interest at the rate of thirty-six (36) percent *per annum* by way of liquidated damages, reckoned from December 26,1997, until fully paid.
3. The sum equivalent to twenty (20) percent of the total amount due (referred to in Items 1 and 2 hereof), by way of attorney's fees;

and costs of suit.

SO ORDERED.^[17]

Aggrieved, petitioners elevated an appeal before the CA.

The CA Ruling

In its assailed August 4, 2011 decision, the CA *affirmed* the ruling of the RTC. It wrote that petitioners failed to specifically deny the genuineness and due execution of the promissory notes in their answer before the trial court. Accordingly, the CA ruled that under Section 8, Rule 8 of the Rules of Court (*Section 8 of Rule 8*), the genuineness and due execution of the promissory notes were deemed admitted by petitioners. It added that the admission of the said actionable documents created a *prima facie* case in favor of Westmont which dispensed with the necessity of presenting evidence that petitioners actually received the loan proceeds. The CA disposed the case in this wise:

WHEREFORE, the instant appeal is DENIED. The assailed Decision dated November 9, 2007 as amended by the assailed Order dated February 6, 2008 of the Regional Trial Court of Manila, Branch 12, is hereby AFFIRMED.

SO ORDERED.^[18]

Petitioners filed a motion for reconsideration, but it was denied by the CA in its assailed decision, dated March 19, 2012.

Hence, this petition, raising the following

ISSUES

I.

THE HONORABLE COURT OF APPEALS ERRONEOUSLY RULED, AS A MATTER OF LAW, THAT PETITIONERS SPS. RAMON SY AND ANITA NG, RICHARD SY, JOSIE ONG, WILLIAM SY AND JACKELINE DE LUCIA FAILED TO SPECIFICALLY DENY THE ACTIONABLE DOCUMENTS UNDER OATH AND THUS, PETITIONERS DEEMED TO HAVE ADMITTED THEIR GENUINENESS AND DUE EXECUTION.

II.

THE HONORABLE COURT OF APPEALS FAILED TO RULE THAT THE PIECES OF

EVIDENCE PRESENTED AND FORMALLY OFFERED BY WESTMONT BANK ARE INADMISSIBLE AND HENCE, SHOULD NOT HAVE BEEN CONSIDERED.^[19]

Petitioners argue that: they specifically denied the allegations of Westmont under oath in their answer filed before the RTC; although they signed blank forms of promissory notes, disclosure statements and continuing suretyship agreements, they were informed that their loan application were denied; these should be considered as sufficient compliance with Section 8 of Rule 8; Westmont Bank failed to prove the existing loan obligations; and the original copy of the promissory notes were never presented in court.

In a Resolution,^[20] dated July 4, 2012, the Court initially denied the petition for failure to show any reversible error in the challenged decision and resolution of the CA. In a Resolution,^[21] dated June 15, 2015, however, the Court granted petitioners' motion for reconsideration, reinstated the petition and required the respondents to file their comment.

In its Entry of Appearance with Compliance/Manifestation,^[22] dated October 19, 2015, UOBP, formerly Westmont, informed the Court that all their interests in the present litigated case were already transferred to the Philippine Deposit Insurance Corporation (PDIC).

In its Comment,^[23] dated September 23, 2015, the PDIC stated that the CA correctly ruled that petitioners failed to specifically deny the actionable documents in their answer and were deemed to have admitted the genuineness and due execution thereof Citing *Permanent Savings and Loan Bank v. Velarde*,^[24] the PDIC underscored that the specific denial meant that the defendant must declare under oath that he did not sign the document or that it was otherwise false or fabricated.

In their Reply,^[25] dated November 2, 2015, petitioners insisted that they made a categorical specific denial in their answer and never admitted the genuineness and due execution of the promissory notes, disclosure statements and continuing surety agreements; the promissory notes presented by Westmont were mere photocopies; and Westmont failed to establish that they received the proceeds of any loan.

The Court's Ruling

The Court finds the petition meritorious.

Whenever an action or defense is based upon a written instrument or document, the substance of such instrument or document shall be set forth in the pleading, and the original or a copy thereof shall be attached to the pleading as an exhibit, which shall be deemed to be a part of the pleading, or said copy may with like effect be set forth in the pleading.^[26] The said instrument or document is called an actionable document and Section 8 of Rule 8 provides the proper method for the adverse party to deny its genuineness and due execution, to wit: