

## FIRST DIVISION

[ G.R. No. 149569, May 28, 2004 ]

**PHILIPPINE NATIONAL BANK, PETITIONER, VS. RBL ENTERPRISES, INC.; RAMON B. LACSON SR.; AND SPOUSES EDUARDO AND HERMINIA LEDESMA, RESPONDENTS.**

### D E C I S I O N

**PANGANIBAN, J.:**

Having released fifty percent of the loan proceeds on the basis of the signed loan and mortgage contracts, petitioner can no longer require the borrowers to secure the lessor's conformity to the Mortgage Contract as a condition precedent to the release of the loan balance. The conformity of the lessor was not necessary to protect the bank's interest, because respondents were unquestionably the absolute owners of the mortgaged property. Furthermore, the registration of the mortgage created a real right to the properties which, in subsequent transfers by the mortgagor, the transferees are legally bound to respect.

#### The Case

Before us is a Petition for Review<sup>[1]</sup> under Rule 45 of the Rules of Court, seeking to set aside the August 22, 2001 Decision<sup>[2]</sup> of the Court of Appeals (CA) in CA-GR CV No. 49749. The dispositive portion of the Decision reads as follows:

"**WHEREFORE**, premises considered[,], the judgment appealed from is hereby **AFFIRMED**, with x x x **MODIFICATION** as follows:

- "1. The amount of actual damages and losses is reduced from P985,722.15 to merely P380,713.55 with legal interest from the date of the filing of the complaint. The interest payable on the loan is ordered reduced by using the agreed interest rate of 18% per annum in the computation[;]
- "2. The amount of moral damages is reduced from P100,000.00 to P50,000.00;
- "3. The amount of exemplary damages is reduced from P50,000.00 to P30,000.00; and
- "4. The award of attorney's fees is reduced from P200,000.00 to P50,000.00."<sup>[3]</sup>

#### The Facts

The facts of the case are narrated in the assailed Decision of the CA, as follows:

"1. On April 28, 1993, [respondents] instituted an action against [Petitioner] PNB and the Provincial Sheriff of Negros Occidental alleging among others, the following:

"(a) Sometime in 1987, [respondents] opened a prawn hatchery in San Enrique, Negros Occidental, and for this purpose, leased from Nelly Bedrejo a parcel of land where the operations were conducted;

"(b) In order to increase productions and improve the hatchery facilities, [respondents] applied for and was approved a loan of P2,000,000.00, by [Petitioner] PNB. To secure its payment, [respondents] executed in favor of PNB, a real estate mortgage over two (2) parcels of land, located at Bago City, Negros Occidental, covered by Transfer Certificate of Title Nos. T-13005 and T-12642 in the names of [respondents], and another real [estate] and chattel mortgage over the buildings, culture tanks and other hatchery facilities located in the leased property of Nelly Bedrejo;

"(c) PNB partially released to [respondents] on several dates, the total sum of P1,000,000.00 less the advance interests, which amount [respondents] used for introducing improvements on the leased property where the hatchery business was located.

"(d) During the mid-part of the construction of the improvements, PNB refused to release the balance of P1,000,000.00 allegedly because [respondents] failed to comply with the bank's requirement that Nelly Bedrejo should execute an undertaking or a 'lessors' conformity' provided in Real Estate and Chattel Mortgage contract dated August 3, 1989, which states, 'par. 9.07. It is a condition of this mortgage that while the obligations remained unpaid, the acquisition by the lessor of the permanent improvements covered by this Real Estate Mortgage as provided for in the covering Lease Contract, shall be subject to this mortgage. For this purpose, the mortgagor hereby undertakes to secure the lessor's conformity hereto'.

"(e) For said alleged failure of [respondents] to comply with the additional requirement and the demand of PNB to pay the released amount of P1,000,000.00, PNB foreclosed the mortgaged properties, to the detriment of [respondents].

"(f) Due to the non-release of the remaining balance of the loan applied for and approved, the productions-operations of the business were disrupted causing losses to [respondents], and thereafter, to the closure of the business.

"2. On June 29, 1990, [Petitioner] PNB filed its Answer with Counterclaim alleging that the lessors' conformity was not an additional requirement

but was already part of the terms and conditions contained in the Real Estate and Chattel Mortgage dated August 3, 1989, executed between [respondents] and [petitioner]; and that the release of the balance of the loan was conditioned on the compliance and submission by the [respondents] of the required lessors' conformity.

"3. On November 8, 1993, a writ of preliminary injunction was issued by the court a quo prohibiting PNB and the Provincial Sheriff of Negros Occidental from implementing the foreclosure proceedings including the auction sale of the properties of the [respondents] subject matter of the real [estate] and chattel mortgages."<sup>[4]</sup>

The Regional Trial Court (RTC) ruled that Philippine National Bank (PNB) had breached its obligation under the Contract of Loan and should therefore be held liable for the consequential damages suffered by respondents. The trial court held that PNB's refusal to release the balance of the loan was unjustified for the following reasons: 1) the bank's partial release of the loan of respondents had estopped it from requiring them to secure the lessor's signature on the Real Estate and Chattel Mortgage Contract; 2) Nelly Bedrejo, the lessor, had no interest in the property and was not in any manner connected with respondents' business; thus, the fulfillment of the condition was legally impossible; and 3) the interests of PNB were amply protected, as the loan had overly been secured by collaterals with a total appraised value of P3,088,000.

The RTC further observed that while the loan would mature in three years, the lease contract between Bedrejo and respondents would expire in ten years. According to a provision in the Contract, upon its expiration, all improvements found on the leased premises would belong to the lessor. Thus, in the event of nonpayment of the loan at its maturity, PNB could still foreclose on those improvements, the subject of the chattel mortgage.

### **Ruling of the Court of Appeals**

Affirming the lower court, the CA held that Nelly Bedrejo, who was not a party to the Mortgage Contract, could not be compelled to affix her signature thereto. The appellate court further ruled that the registration of the mortgage not only revealed PNB's intention to give full force and effect to the instrument but, more important, gave the mortgagee ample security against subsequent owners of the chattels.

The CA, however, reduced the amount of actual damages for lack of competent proof of the lost income and the unrealized profits of RBL, as well as for the additional expenses and liabilities incurred by respondents as a result of petitioner's refusal to release the balance of the loan. Moral and exemplary damages as well as attorney's fees were likewise lessened.

Hence, this Petition.<sup>[5]</sup>

### **Issues**

Petitioner raises the following alleged errors for our consideration:

"A.

Whether or not the Court of Appeals committed serious error when it held that Petitioner PNB has no legal basis to require respondents to secure the conformity of the lessor and owner of the property where their hatchery business is being conducted notwithstanding that respondents obligated themselves in no uncertain terms to secure such conformity pursuant to par. 9.07 of the Real Estate and Chattel Mortgage and considering further that respondents' authority to mortgage the lessor's property and leasehold rights are annotated [on] the titles of the mortgage[d] properties.

"B.

Whether or not the Court of Appeals erred in holding Petitioner PNB liable for actual, moral and exemplary damages as well as attorney's fees for the non-release of the balance of the loan applied by respondents even though there is no evidence that such non-release was attended by malice or bad faith."<sup>[6]</sup>

Simply put, the issues are as follows: 1) whether the non-release of the balance of the loan by PNB is justified; and 2) whether it is liable for actual, moral and exemplary damages as well as attorney's fees.

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

The Petition is partly meritorious.

#### **First Issue:**

#### **Was PNB's Non-Release of the Loan Justified?**

Petitioner maintains that the lessor's signature in the *conforme* portion of the Real Estate and Chattel Mortgage Contract was a condition precedent to the release of the balance of the loan to respondents. Petitioner invokes paragraph 9.07 of the Contract as legal basis for insisting upon respondents' fulfillment of the aforesaid clause.

We are not persuaded. If the parties truly intended to suspend the release of the P1,000,000 balance of the loan until the lessor's conformity to the Mortgage Contract would have been obtained, such condition should have been plainly stipulated either in that Contract or in the Credit Agreement. The tenor of the language used in paragraph. 9.07, as well as its position relative to the whole Contract, negated the supposed intention to make the release of the loan subject to the fulfillment of the clause. From a mere reading thereof, respondents could not reasonably be expected to know that it was petitioner's unilateral intention to suspend the release of the P1,000,000 balance until the lessor's conformity to the Mortgage Contract would have been obtained.

Respondents had complied with all the requirements set forth in the recommendation and approval sheet forwarded by petitioner's main office to the Bacolod branch for implementation; and the Credit Agreement had been executed thereafter. Naturally, respondents were led to believe and to expect the full release of their approved loan accommodation. This belief was bolstered by the initial