



Republic of the Philippines
Supreme Court
Manila

SUPREME COURT OF THE PHILS.
MARIA LOURDES P. A. SERENO
CHIEF JUSTICE

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SECOND DIVISION

AGOO RICE MILL CORPORATION

(represented by its President, Kam Biak
Y. Chan, Jr.),

Petitioner,

-versus -

G.R. No. 173036

Present:

CARPIO, J., Chairperson,
BRION,
LEONARDO-DE CASTRO,*
PEREZ, and
PERLAS-BERNABE, JJ.

Promulgated:

LAND BANK OF THE PHILIPPINES,
Respondent.

SEP 26 2012

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DECISION

BRION, J.:

Before us is a petition for review on *certiorari*¹ of the March 28, 2006 decision² and the June 6, 2006 resolution³ of the Court of Appeals (CA) in CA-G.R. CV No. 84458. The CA affirmed the decision⁴ of the Regional Trial Court (RTC), Branch 30, San Fernando City, La Union, in Civil Case No. 6255 which denied the complaint for injunction filed by Agoo Rice Mill Corporation (ARMC) against the Land Bank of the Philippines (LBP). The CA denied the petitioner's subsequent motion for reconsideration.

* Designated as Acting Member in lieu of Associate Justice Mariano C. del Castillo, per Special Order No. 1308 dated September 21, 2012.

¹ Under Rule 45 of the Rules of Court: *rollo*, pp. 9-40.

² Penned by Associate Justice Renato C. Dacudao, and concurred in by Associate Justices Lucas P. Bersamin (now a member of this Court) and Celia C. Librea-Leagogo; *id.* at 45-63.

³ *Id.* at 65.

⁴ Penned by Judge Adolfo F. Alagar; *id.* at 96-99.

Background Facts

The facts, as gathered from the records, are as follows:

From October 1993 to October 1996,⁵ the ARMC obtained from the LBP a Term Loan (TL) for ₱2,000,000.00 and two (2) Short-Term Loan Lines (STLLs) amounting to a total of ₱15,000,000.00,⁶ evidenced by promissory notes. These loans were secured by a Real and Chattel Mortgage over the ARMC's four (4) commercial lots, including their improvements, and its rice mill machineries and generator.⁷

Payment for the ₱2,000,000.00 TL was due on October 29, 1996, and payments for the STLLs, of ₱12,000,000.00 and ₱3,000,000.00, were due on April 28, 1996 and April 8, 1997, respectively.⁸

ARMC made several partial payments to cover the loans' interests,⁹ but found it difficult to fully settle its loan obligations on time due to the company's financial liquidity problems; the negative effect of the government's rice importation in 1996 on its sales of rice;¹⁰ and problems brought by the El Niño phenomenon in the region's rice production.¹¹

In a letter¹² dated January 6, 1997, the ARMC, through its President Mr. Kam Biak Y. Chan, Jr., requested the LBP for an extension of time to pay its obligations; he asked for a period ending on February 28, 1997.

The LBP, through a letter¹³ dated February 25, 1997, reminded ARMC of its commitment to pay on February 28, 1997.

⁵ *Id.* at 90.

⁶ *Id.* at 66-67.

⁷ *Id.* at 90.

⁸ *Ibid.*

⁹ *Id.* at 67.

¹⁰ *Id.* at 90.

¹¹ *Id.* at 85.

¹² *Ibid.*

¹³ *Id.* at 122.

On February 27, 1997, still foreseeing its inability to pay its obligations on the requested date, the ARMC wrote the LBP for the renewal of its loans, particularly the ₱15,000,000.00 STLLs.¹⁴ The LBP allegedly replied with the advice to have the loans restructured instead of renewed.¹⁵

Accordingly, in a letter¹⁶ dated March 12, 1997, ARMC requested the LBP to restructure its STLLs. It suggested a payment arrangement of ₱5,000,000.00 every six (6) months, until the whole loan of ₱15,000,000.00 was paid in full.¹⁷

The LBP deferred the ARMC's proposal and advised it to first secure a waiver of its penalty charges prior to the loan's restructuring.¹⁸

In a letter¹⁹ dated November 3, 1997, the LBP informed the ARMC that the bank's Domestic Banking Loan Committee has agreed to require an additional collateral from the ARMC, which must be offered on or before November 7, 1997; otherwise, the LBP would be forced to pursue legal action.

In another letter²⁰ dated November 10, 1997, the LBP informed ARMC that its existing collateral was short of ₱3,400,000.00, based on its outstanding ₱15,000,000.00 loan, and reiterated that ARMC needed to offer additional collateral and to submit the necessary documents; ARMC was given up to November 14, 1997 to comply, but this was extended to November 25, 1997.²¹ ARMC responded by asking for a reappraisal of its properties, but the LBP denied the request, insisting that the valuation made by its Property Assessors was fair and reasonable.²²

¹⁴ *Id.* at 87.

¹⁵ *Ibid.*

¹⁶ *Ibid.*

¹⁷ *Ibid.*

¹⁸ In a letter dated July 16, 1997; *id.* at 88.

¹⁹ *CA rollo*, p. 67.

²⁰ *Id.* at 140.

²¹ In a letter dated Nov. 18, 1997; *rollo*, p. 141.

²² *Ibid.*

On April 15, 1998, the LBP wrote to the ARMC regarding the latter's failure to comply with the LBP's required offer of an additional collateral or to pay its due obligations. The LBP informed the ARMC that non-compliance on or before April 30, 1998 would result in the referral of the matter to the bank's Legal Office for appropriate action.²³

In a letter²⁴ dated May 22, 1998, the LBP informed the ARMC that its requested loan restructuring was under evaluation with the bank's Loan Approving Authorities; in the meantime, the bank reminded ARMC of its payment for the month, which must be paid on or before May 29, 1998.

Application for Extrajudicial Foreclosure

On July 8, 1998, the LBP sent the ARMC a Final Notice of Payment,²⁵ informing the ARMC that it had filed, on the same date, an application for the extrajudicial foreclosure of ARMC's mortgaged properties with the Office of the Ex-Officio Sheriff of San Fernando City, La Union.²⁶

In its application for extrajudicial foreclosure,²⁷ the LBP alleged, among others, that: (1) despite repeated demands, the ARMC failed to pay its overdue obligations, in violation of the terms and conditions of the Real and Chattel Mortgage; (2) as of July 8, 1998, the ARMC's total unpaid obligation amounted to ₱23,473,320.83, broken down as follows - principal amount of ₱15,000,000.00, interests amounting to ₱7,363,320.83, and penalties amounting to ₱1,110,000.00; and (3) the ARMC had been duly notified, through a letter-notice dated July 8, 1998, of the foreclosure proceedings and of the time, date and place of public auction.

²³ *Id.* at 121.

²⁴ *Id.* at 120.

²⁵ *Id.* at 127.

²⁶ *Id.* at 14-15.

²⁷ *Id.* at 104-106.

The extrajudicial foreclosure was set for August 26, 1998 at nine o'clock in the morning.²⁸

Complaint for Injunction

On August 24, 1998, ARMC, through its President, filed with the RTC, Branch 30, San Fernando City, La Union, a complaint for injunction with application for a writ of preliminary injunction and temporary restraining order, and for recovery of damages.²⁹

ARMC mainly alleged that LBP's proposed extrajudicial foreclosure should be enjoined for being premature, improper and in violation of ARMC's contractual and property rights since negotiations for the restructuring of its loans were still ongoing. ARMC contended that, unless enjoined, the foreclosure would cause its company grave injustice and irreparable injury.

ARMC also alleged that the LBP's petition for extrajudicial foreclosure contained inconsistent statements on the total amount of its principal obligation, and omitted the following relevant facts: that the ₱15,000,000.00 STLLs and the ₱2,000,000.00 TL were separately secured by a real estate mortgage and a chattel mortgage, respectively; that the ₱2,000,000.00 TL had been fully paid, evidenced by a voucher dated February 27, 1997; and that despite full payment of the ₱2,000,000.00 TL, the LBP did not release the chattel mortgage and still included it in the petition for extrajudicial foreclosure.

Further, ARMC contended that the Real and Chattel Mortgage attached to the LBP's petition for extrajudicial foreclosure referred to a loan previously obtained by ARMC in 1995, which does not reflect the recent loan transactions between the parties, and that the mortgage contract was

²⁸ *Id.* at 15.

²⁹ *Id.* at 66-75.

altered without ARMC's consent by including in the mortgaged chattel the ARMC's "stocks (rice/palay) inventories."³⁰

ARMC denied receipt of the LBP's July 8, 1998 Final Notice of Payment.

Temporary Restraining Order and Writ of Preliminary Injunction

On August 24, 1998, Executive Judge Vicente A. Pacquing, RTC, La Union, issued a 72-hour Temporary Restraining Order (*TRO*) directing the Ex-Officio Provincial Sheriff of La Union to cease and desist from proceeding with the August 26, 1998 foreclosure sale.³¹ The following day, the RTC ordered the extension of the *TRO* for seventeen (17) days.³²

On September 8, 1998, the RTC ordered the proceedings suspended in view of the parties' manifestation to have the case amicably settled.³³ The contemplated settlement, however, failed. Thus, the RTC proceeded with the hearing on the issuance of the writ of preliminary injunction on January 12, 1999.³⁴

In an order³⁵ dated March 18, 1999, Judge Adolfo Alagar, RTC, Branch 30, San Fernando City, La Union, issued a writ of preliminary injunction upon the ARMC's filing of a bond of ₱4,000,000.00.

The RTC's Ruling

In a decision dated August 5, 2004, the RTC found no merit in the ARMC's complaint for injunction.

³⁰ *Id.* at 16-17.

³¹ Records, p. 25.

³² *Id.* at 68.

³³ *Id.* at 92.

³⁴ *Id.* at 107.

³⁵ *Rollo*, pp. 94-95.

Contrary to the allegation that the LBP reneged on its commitment to restructure the ARMC's loans, the RTC found that the LBP never agreed to the ARMC's proposed restructuring and, thus, was not in bad faith when it exercised its right to foreclose the ARMC's mortgaged properties; that no agreement was forged between the parties because the ARMC failed to offer an additional collateral, as the LBP required for the approval of the proposed restructuring.

Further, the RTC found no inconsistency or vagueness in the petition for extrajudicial foreclosure as to the amount of the ARMC's principal obligation, *i.e.*, ₱15,000,000.00, and that the settlement of the ₱2,000,000.00 TL could not operate to discharge the mortgaged chattel because the Real and Chattel Mortgage was found to be indivisible, *i.e.*, the mortgaged real estate and chattel could not be discharged until the ARMC's total indebtedness under the Real and Chattel Mortgage is fully settled.

The RTC denied the ARMC's complaint on the ground that injunction cannot issue against the exercise of a valid right, the right of the creditor-mortgagee to foreclose on the mortgage where the debtor-mortgagor has defaulted in the payment of its obligations.

The RTC likewise ruled that the LBP's foreclosure was not merely an exercise of its right, but also the performance of its legal obligation under Presidential Decree No. (P.D.) 385;³⁶ the decree requires government financial institutions, such as the LBP, to foreclose mandatorily all loans with arrearages, including interest and charges, amounting to at least twenty percent (20%) of the total outstanding obligation. The same decree also provides that no restraining order, temporary or permanent injunction shall be issued by the court against the foreclosing government financial

³⁶ Entitled "REQUIRING GOVERNMENT FINANCIAL INSTITUTIONS TO FORECLOSE MANDATORILY ALL LOANS WITH ARREARAGES, INCLUDING INTEREST AND CHARGES AMOUNTING TO AT LEAST TWENTY (20%) PERCENT OF THE TOTAL OUTSTANDING OBLIGATION"; dated January 31, 1974.

institution unless 20% of the outstanding arrearages have been paid after the filing of the foreclosure proceedings.

The ARMC moved to reconsider the RTC's decision, but the trial court denied the motion in an order dated February 2, 2005.³⁷ The ARMC filed a notice of appeal to the CA on February 8, 2005.³⁸

In its appeal to the CA, the ARMC insisted that the restructuring of its ₱15,000,000.00 STLLs was still under negotiation when the LBP filed its application for extrajudicial foreclosure on July 8, 1998, and contended that the LBP was in bad faith and guilty of promissory estoppel when it led the ARMC to believe that it would restructure its loans, yet refused to have the mortgaged properties reappraised by an independent appraiser.

The ARMC further contended that the charges imposed by the LBP were unwarranted and that the stipulated interest on the promissory notes was excessive and unconscionable and should be voided.

Foreclosure Sale

On May 12, 2005, the Sheriff of the RTC of San Fernando City, La Union issued a Notice of Extrajudicial Sale that set the auction sale of the mortgaged properties on June 3, 2005.³⁹

The ARMC sought to enjoin the foreclosure sale by filing with the CA an application for the issuance of a writ of preliminary injunction and temporary restraining order, which the CA denied in a resolution dated June 14, 2005.⁴⁰

³⁷ *Rollo*, pp. 100-103.

³⁸ *CA rollo*, p. 37.

³⁹ *Id.* at 32.

⁴⁰ *Id.* at 37-39.

The LBP emerged as the winning bidder in the auction sale.⁴¹

The CA's Ruling

In a decision⁴² dated March 28, 2006, the CA found no merit in the ARMC's appeal. The CA affirmed the RTC in ruling that, under P.D. 385, an injunction, whether permanent or temporary, could not be issued to enjoin the foreclosure proceedings instituted by the LBP.

The CA likewise found that the LBP did not approve, or even promised to approve, the ARMC's proposed loan restructuring; that, in LBP's letter dated May 22, 1998 to ARMC's president, the LBP merely informed the ARMC that its proposal was "under evaluation by [its] Loan Approving Authorities";⁴³ that nothing in the letter suggested that the LBP made any commitment or assurance to ARMC that it would approve the latter's proposal, thus, the LBP could not be held liable for promissory estoppel; and that, in fact, the LBP repeatedly sent notices demanding payment from ARMC but the latter failed to comply, prompting LBP to file for extrajudicial foreclosure.

The CA did not also find the LBP in bad faith for refusing to have the ARMC's mortgaged properties reappraised by an independent appraiser; the LBP's low valuation on the reappraised properties would even be more beneficial to ARMC in case of redemption.

Neither did the CA find the stipulated interest rates on the promissory notes and the imposed penalty charges excessive, unconscionable and unwarranted, as the interest on the promissory notes ranged from 15.50% to 18.25% per annum and was last fixed at the "prevailing bank rate," while the penalty charge was imposed at 12% per annum. The CA found these rates reasonable and cannot be compared with the 5.5% per month, or 66% per

⁴¹ *Rollo*, pp. 251.

⁴² *Supra* note 2.

⁴³ *Rollo*, pp. 59-60.

annum, interest that this Court found to be excessive, illegal, iniquitous and unconscionable in *Medel v. Court of Appeals*.⁴⁴

The CA denied the motion for reconsideration that the ARMC subsequently filed, paving the way for the present petition for review on *certiorari* filed with this Court on August 2, 2006.

The Court's Ruling

The basic issue posed for our resolution is the ARMC's entitlement to an injunctive remedy.

“Injunction is a judicial writ, process or proceeding whereby a party is ordered to do or refrain from doing a certain act. It may be the main action or merely a provisional remedy for and as an incident in the main action.”⁴⁵ For an injunction to issue, the following essential requisites must be present: (1) there must be a right in *esse* or the existence of a right to be protected; and (2) the act against which the injunction is directed to constitute a violation of such right.⁴⁶

The ARMC filed a complaint for injunction against the LBP on the ground that the latter's then impending foreclosure of its mortgaged properties was in violation of its contractual and property rights, particularly the right of the ARMC to have its outstanding loan restructured by the LBP. The ARMC alleged that the LBP acted in bad faith and in wanton disregard of its commitment to restructure the former's loans when it hastily filed for extrajudicial foreclosure while negotiations for the loan restructuring were still ongoing.

⁴⁴ G.R. No. 131622, November 27, 1998, 299 SCRA 481.

⁴⁵ *Garayblas v. Atienza, Jr.*, G.R. No. 149493, June 22, 2006, 492 SCRA 202, 217, citing *Bacolod City Water District v. Labayen*, G.R. No. 157494, December 10, 2004, 446 SCRA 110, 122.

⁴⁶ *Sales v. Securities and Exchange Commission*, G.R. No. 54330, January 13, 1989, 169 SCRA 109, 127-128.

The existence of the ARMC's claimed right to the loan restructuring, however, was not clearly established by the ARMC. A party seeking to avail of an injunctive relief must prove that he or she possesses a right in *esse* or one that is actual or existing.⁴⁷ Such right must be clear and unmistakable,⁴⁸ and not contingent, abstract or future rights, or one that may never arise.⁴⁹

In the present case, both the RTC and the CA found that no agreement was forged between the ARMC and the LBP on the restructuring of the ARMC's loans at the time the LBP filed an application to extra-judicially foreclose the ARMC's mortgaged properties; the proposed loan restructuring was not approved by the LBP because the ARMC failed to offer an additional collateral sufficient enough to cover its outstanding loan with the bank. Thus, the ARMC, then, had no actual right to protect or to enforce against the LBP. It failed to satisfy the first requisite, *i.e.*, the existence of a clear and unmistakable right for the issuance of an injunction.

On the other hand, the LBP had every right to foreclose on the Real and Chattel Mortgage since the ARMC had defaulted in the payment of its overdue loan obligation with the bank. The foreclosure is supported by the express mandate of P.D. 385, which provides:

Section 1. It shall be mandatory for government financial institutions, after the lapse of sixty (60) days from the issuance of this Decree, to foreclose the collaterals and/or securities for any loan, credit, accommodation, and/or guarantees granted by them whenever the arrearages on such account, including accrued interest and other charges, amount to at least twenty percent (20%) of the total outstanding obligations, including interest and other charges, as appearing in the books of account and/or related records of the financial institution concerned. This shall be without prejudice to the exercise by the government financial institutions of such rights and/or remedies available to them under their respective contracts with their debtors, including the right to foreclose on loans, credits, accommodations and/or guarantees on which the arrearages are less than twenty percent (20%).

⁴⁷ *Duvaz Corporation v. Export and Industry Bank*, G.R. No. 163011, June 7, 2007, 523 SCRA 405, 413.

⁴⁸ *Philippine Leisure and Retirement Authority v. Court of Appeals*, G.R. No. 156303, December 19, 2007, 541 SCRA 85, 100.

⁴⁹ *Duvaz Corporation v. Export and Industry Bank*, *supra* note 47, at 415.

Section 2 of the same decree further provides that:

Section 2. No restraining order, temporary or permanent injunction shall be issued by the court against any government financial institution in any action taken by such institution in compliance with the mandatory foreclosure provided in Section 1 hereof, whether such restraining order, temporary or permanent injunction is sought by the borrower(s) or any third party or parties, except after due hearing in which it is established by the borrower and admitted by the government financial institution concerned that twenty percent (20%) of the outstanding arrearages has been paid after the filing of foreclosure proceedings.

Under these terms, the ARMC cannot secure an injunction against the LBP, a government financial institution.

Injunction Became Moot and Academic

The present petition must also be denied because the act sought to be enjoined by the ARMC is already a consummated act. The records show that the foreclosure sale on the ARMC's mortgaged properties was held sometime in June 2005 and the LBP emerged as the winning bidder. An injunction suit becomes moot and academic after the act sought to be enjoined had already been consummated.⁵⁰

WHEREFORE, we **DENY** the present petition for review on *certiorari* for lack of merit and for being moot and academic. Costs against petitioner Agoo Rice Mill Corporation.

SO ORDERED.


ARTURO D. BRION
Associate Justice

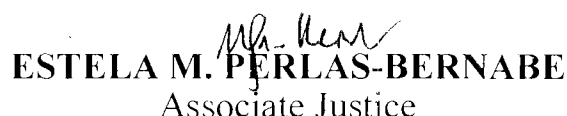
⁵⁰ *Philippine Commercial and Industrial Bank v. National Mines and Allied Workers Union (NAMAWU-AMF)*, No. L-50402, August 19, 1982, 115 SCRA 873, 882; *Romulo v. Yñiguez*, No. L-71908, February 4, 1986, 141 SCRA 263, 279; and *Rivera v. Florendo*, No. L-57586, October 8, 1986, 144 SCRA 643, 658.

WE CONCUR:**ANTONIO T. CARPIO**Associate Justice
Chairperson**TERESITA J. LEONARDO DE CASTRO**

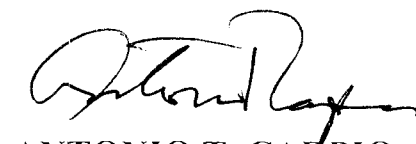
Associate Justice

**JOSE PORTUGAL PEREZ**

Associate Justice


ESTELA M. PERLAS-BERNABE
Associate Justice**ATTESTATION**

I attest that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.

**ANTONIO T. CARPIO**Associate Justice
Chairperson**CERTIFICATION**

Pursuant to Section 13, Article VIII of the Constitution, and the Division Chairperson's Attestation, it is hereby certified that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.

**MARIA LOURDES P. A. SERENO**

Chief Justice