



Republic of the Philippines
Supreme Court
Manila

FIRST DIVISION

SPOUSES FRANCISCO
SIERRA (substituted by
DONATO, TERESITA,
TEODORA, LORENZA,
LUCINA, IMELDA, VILMA,
and MILAGROS SIERRA) and
ANTONINA SANTOS,
SPOUSES ROSARIO SIERRA
and EUSEBIO CALUMA
LEYVA, and SPOUSES
SALOME SIERRA and FELIX
GATLABAYAN (substituted by
BUENAVENTURA, ELPIDIO,
PAULINO, CATALINA,
GREGORIO, and EDGARDO
GATLABAYAN, LORETO
REILLO, FERMINA
PEREGRINA, and NIDA
HASHIMOTO),

Petitioners,

G.R. No. 197857

Present:

VELASCO, JR.,
LEONARDO-DE CASTRO,
Acting Chairperson,**
BERSAMIN,
PEREZ, and
PERLAS-BERNABE, JJ.

- versus -

PAIC SAVINGS AND
MORTGAGE BANK, INC.,
Respondent.

Promulgated:

SEP 10 2014

X-----X

DECISION

PERLAS-BERNABE, J.:

Assailed in this petition for review on *certiorari*¹ is the Decision² dated June 27, 2011 of the Court of Appeals (CA) in CA-G.R. CV No.

* Designated Acting Member per Special Order No. 1772 dated August 28, 2014.

** Per Special Order No. 1771 dated August 28, 2014.

¹ *Rollo*, pp. 10-19.

² Id. at 21-36. Penned by Associate Justice Ramon M. Bato, Jr. with Associate Justices Juan Q. Enriquez, Jr. and Florito S. Macalino, concurring.

91999 which reversed and set aside the Decision³ dated April 24, 2006 of the Regional Trial Court of Antipolo City, Branch 74 (RTC) in Civil Case No. 91-2153, dismissing petitioners’ complaint for declaration of nullity of real estate mortgage and extrajudicial foreclosure proceedings.

The Facts

On May 31, 1983, Goldstar Conglomerates, Inc. (GCI), represented by Guillermo Zaldaga (Zaldaga), obtained from First Summa Savings and Mortgage Bank (Summa Bank), now respondent Paic Savings and Mortgage Bank, Inc. (PSMB),⁴ a loan in the amount of ₱1,500,000.00 as evidenced by a Loan Agreement⁵ dated May 31, 1983. As security therefor, GCI executed in favor of PSMB six (6) promissory notes⁶ in the aggregate amount of ₱1,500,000.00 as well as a Deed of Real Estate Mortgage over a parcel of land covered by Transfer Certificate of Title (TCT) No. 308475.⁷ As additional security, petitioners Francisco Sierra, Rosario Sierra, and Spouses Felix Gatlabayan and Salome Sierra mortgaged four (4) parcels of land in Antipolo City, covered by TCT Nos. 308476, 308477, 308478, and 308479,⁸ and respectively registered in their names (subject properties). Records show that after the signing of the mortgage deed, Zaldaga gave petitioner Francisco Sierra⁹ four (4) manager’s checks with an aggregate amount of ₱200,000.00, which were later successfully encashed,¹⁰ as well as several post-dated checks.¹¹

³ Records, folder 2, pp. 716-723. Penned by Presiding Judge Francisco A. Querubin.
⁴ Summa Bank changed its name to PSMB effective June 10, 1983; records, folder 1, p. 268.
⁵ Id. at 269-282.
⁶ Id. at 95-106.
⁷ *Rollo*, p. 23. Zaldaga likewise executed a deed of real estate mortgage (not attached to the records) in favor of Summa Bank on July 8, 1983 over a parcel of land covered by TCT No. N-76395 located in Antipolo City; records, folder 2, p. 685.
⁸ Records, folder 1, pp. 9-16.
⁹ See *rollo*, p. 23. See also Transcript of Stenographic Notes (TSN), April 30, 1993, p. 6; and records, folder 1, p. 456.
¹⁰ Records, folder 2, p. 719.
¹¹ The particulars of the postdated checks are as follows (records, folder 1, pp. 3-4 and 366-376):

Check No.	Date	Amount
016510	April 29, 1983	₱ 46,000.00
016511	Oct. 29, 1984	29,925.00
016512	May 29, 1985	29,925.00
016515	Oct. 29, 1984	33,250.00
016516	Oct. 29, 1983	33,250.00
016517	April 29, 1984	33,250.00
016518	Oct. 21, 1985	33,250.00
(Should be October 29, 1985, see id. at 367 and 375.)		
016521	Oct. 29, 1983	29,925.00
016522	April 29, 1984	29,925.00
016523	Oct. 29, 1984	29,925.00
016524	May 29, 1985	29,925.00
016527	Oct. 29, 1983	29,925.00
016528	April 29, 1984	29,925.00
016529	Oct. 29, 1984	29,925.00
016530	May 29, 1985	29,925.00
016531	April 29, 1984	29,925.00
Total		<u>₱508,175.00</u>

Eventually, GCI defaulted in the payment of its loan to PSMB, thereby prompting the latter to extrajudicially foreclose the mortgage on the subject properties in accordance with Act No. 3135,¹² as amended, with due notice to petitioners.¹³ In the process, PSMB emerged as the highest bidder in the public auction sale held on June 27, 1984 for a total bid price of ₱2,467,272.66.¹⁴ Since petitioners failed to redeem the subject properties within the redemption period, their certificates of title were cancelled and new ones were issued in PSMB's name.¹⁵

On September 16, 1991, petitioners filed a complaint¹⁶ for the declaration of nullity of the real estate mortgage and its extrajudicial foreclosure, and damages against PSMB and Summa Bank before the RTC, docketed as Civil Case No. 91-2153.

In the said complaint, petitioners averred that under pressing need of money, with very limited education and lacking proper instructions, they fell prey to a group who misrepresented to have connections with Summa Bank and, thus, could help them secure a loan.¹⁷ They were made to believe that they applied for a loan, the proceeds of which would be released through checks drawn against Summa Bank.¹⁸ Relying in good faith on the checks¹⁹ issued to them, petitioners unsuspectingly signed a document denominated as Deed of Real Estate Mortgage (subject deed), couched in highly technical legal terms, which was not interpreted in a language/dialect known to them, and which was not accompanied by the loan documents. However, when they presented for payment the earliest-dated checks to the drawee bank, the same were dishonored for the reason "Account Closed." Upon confrontation, some members of the group assured petitioners that there was only a misunderstanding and that their certificates of titles would be returned.²⁰ Subsequently, petitioners learned that: (a) the loan account secured by the real estate mortgage was in the name of another person and not in their names as they were made to understand; (b) despite lack of special authority from them, foreclosure proceedings over the subject properties were initiated by PSMB and not Summa Bank in whose favor the mortgage was executed; (c) the period of redemption had already lapsed; and (d) the ownership over the subject properties had already been consolidated in the name of PSMB.²¹ Petitioners likewise lamented that they were not furnished copies of the loan

¹² Entitled "AN ACT TO REGULATE THE SALE OF PROPERTY UNDER SPECIAL POWERS INSERTED IN OR ANNEXED TO REAL ESTATE MORTGAGES."

¹³ *Rollo*, pp. 23-24. See also the letter dated June 11, 1984 which was duly received on June 19, 1984; records, folder 1, pp. 348-349.

¹⁴ See Certificate of Sale dated June 27, 1984; records, folder 1, pp. 350-352.

¹⁵ *Rollo*, p. 24.

¹⁶ Records, folder 1, pp. 1-8.

¹⁷ *Id.* at 3.

¹⁸ *Id.* at 3-4.

¹⁹ Manager's checks	₱200,000.00
Postdated checks	<u>508,175.00</u>
Total	<u>₱708,175.00</u>

²⁰ Records, folder 1, p. 4.

²¹ *Id.* at 4-5.

and mortgage documents, or notified/apprised of the assignment to PSMB, rendering them unable to comply with their obligations under the subject deed. They further claimed that they were not furnished a copy of the statement of account, which was bloated with unconscionable and unlawful charges, assessments, and fees, nor a copy of the petition for foreclosure prior to the precipitate extrajudicial foreclosure and auction sale which failed to comply with the posting and notice requirements.²² In light of the foregoing, petitioners prayed that the real estate mortgage and the subsequent foreclosure proceedings, and all derivative titles and rights arising therefrom be declared null and *void ab initio*, and that the subject properties be reconveyed back to them, with further prayer for compensatory and exemplary damages, and attorney's fees.²³

PSMB filed its answer,²⁴ averring that PSMB and Summa Bank are one and the same entity.²⁵ It prayed for the dismissal of the complaint, claiming that petitioners have no cause of action against it because it never extended any loan to them.²⁶ PSMB maintained that: (a) it acted in good faith with respect to the subject transactions and that petitioners' action should be directed against the group who deceived them;²⁷ (b) the subject properties were mortgaged to secure an obligation covered by the loan agreement with GCI;²⁸ (c) the mortgage was valid, having been duly signed by petitioners before a notary public;²⁹ (d) the foreclosure proceedings were regular, having complied with the formalities required by law;³⁰ and (e) petitioners allowed time to pass without pursuing their purported right against Summa Bank and/or PSMB.³¹ PSMB thereby interposed a counterclaim for compensatory, moral and exemplary damages, and attorney's fees for the baseless suit.³²

The RTC Ruling

In a Decision³³ dated April 24, 2006, the RTC: (a) declared the subject deed and the extrajudicial foreclosure proceedings null and void; (b) cancelled the certificates of title of PSMB; and (c) directed the reinstatement of petitioners' certificates of title.³⁴

While the RTC ruled that the loan transaction was a valid and binding agreement between Summa Bank and GCI, it held that the subject deed did

²² Id. at 5-6.

²³ Id. at 7.

²⁴ Id. at 46-64.

²⁵ Id. at 46.

²⁶ Id. at 51 and 54.

²⁷ Id. at 55.

²⁸ Id. at 47.

²⁹ Id. at 56.

³⁰ Id. at 58-59.

³¹ Id. at 59.

³² Id. at 63.

³³ Records, folder 2, pp. 716-723.

³⁴ Id. at 723.

not reflect the true intent and agreement between Summa Bank and petitioners who were made to believe that they were the principal obligors in the loan, thereby invalidating their consent to the mortgage.³⁵ It likewise held that petitioners cannot be faulted for failing to heed the notice of extrajudicial foreclosure sale by PSMB considering their lack of notice that Summa Bank had changed its name to PSMB.³⁶

Nonetheless, considering that petitioners had received partial loan proceeds of ₱200,000.00, the RTC held them liable for such amount and accordingly directed PSMB to (a) allow petitioners to pay for their loan in the amount of ₱200,000.00 plus 12% interest, and (b) pay moral and exemplary damages, attorney's fees, and the costs of suit.³⁷

Aggrieved, PSMB filed a motion for reconsideration,³⁸ while petitioners filed a motion for discretionary execution³⁹ which were, however, denied in an Order⁴⁰ dated February 11, 2008. Dissatisfied, PSMB interposed an appeal to the CA.

The CA Ruling

In a Decision⁴¹ dated June 27, 2011, the CA reversed and set aside the RTC Decision and dismissed petitioners' complaint for lack of merit.⁴²

It held that petitioners were not able to sufficiently prove their claim that they were uneducated and/or unschooled, rejecting the self-serving and uncorroborated testimony of petitioner Francisco Sierra on such claim.⁴³ In this relation, it pointed out that petitioners had knowingly and voluntarily executed the subject deed, observing that: (a) prior to its execution, petitioners Francisco and Rosario Sierra had previously mortgaged their properties twice to the Rural Bank of Antipolo, showing that they were familiar with the intricacies of obtaining a loan and of the terms and conditions of a mortgage, and (b) the page on which the parties affixed their signatures clearly indicated petitioners as the mortgagors and GCI as the borrowers. Moreover, petitioners did not demand for the release of the remaining amount of their alleged loan, raising issue thereon only in their complaint filed in 1991.⁴⁴

³⁵ See id. at 721-722.

³⁶ Id. at 722.

³⁷ Id. at 723.

³⁸ Id. at 724-748. Dated May 23, 2006.

³⁹ Id. at 765-769.

⁴⁰ Id. at 898-905. Penned by Judge Mary Josephine P. Lazaro.

⁴¹ *Rollo*, pp. 21-36.

⁴² Id. at 35.

⁴³ See id. at 28-30.

⁴⁴ See id. at 30-31.

The CA likewise ruled that the action to annul the subject deed had already prescribed, since the same was brought more than four (4) years from the discovery of the mistake or fraud, reckoned from the time the earliest checks issued to petitioners were dishonored, or on January 9, 1984, this being the time the consideration or price for the execution of the subject deed turned out to be false.⁴⁵

The CA further held that petitioners were barred by *laches* from asserting any claim on the subject properties considering that despite receipt of the letter dated June 11, 1984 informing them of the scheduled auction sale, they failed to attend the sale or file an adverse claim, or to thereafter redeem the subject properties.⁴⁶

Unperturbed, petitioners filed the instant petition.

The Issues Before The Court

The essential issues in this case are whether or not the CA erred in: (a) ruling that petitioners were aware that they were mere accommodation mortgagors, and (b) dismissing the complaint on the grounds of prescription and *laches*.

The Court's Ruling

The petition lacks merit.

A. *Vitiation of Consent.*

Time and again, the Court has stressed that allegations must be proven by sufficient evidence because mere allegation is not evidence.⁴⁷ Thus, **one who alleges any defect or the lack of a valid consent to a contract must establish the same by full, clear, and convincing evidence**, not merely by preponderance of evidence.⁴⁸ The rule is that he who alleges mistake affecting a transaction must substantiate his allegation, since it is presumed that a person takes ordinary care of his concerns and that private transactions have been fair and regular.⁴⁹ **Where mistake or error is alleged by parties who claim to have not had the benefit of a good education, as in this case, they must establish that their personal circumstances prevented**

⁴⁵ See *id.* at 32-33.

⁴⁶ See *id.* at 34-35.

⁴⁷ *Ramos v. Obispo*, G.R. No. 193804, February 27, 2013, 692 SCRA 240, 249.

⁴⁸ *Leonardo v. CA*, 481 Phil. 520, 532 (2004).

⁴⁹ *Ramos v. Obispo*, *supra* note 47.

them from giving their free, voluntary, and spontaneous consent to a contract.⁵⁰

After a judicious perusal of the records, the Court finds petitioners' claim of mistake or error (that they acted merely as accommodation mortgagors) grounded on their "very limited education" and "lack of proper instruction" not to be firmly supported by the evidence on record.

As correctly observed by the CA, the testimony of petitioner Francisco Sierra as to petitioners' respective educational backgrounds⁵¹ remained uncorroborated. The other petitioners-signatories to the deed never testified that their educational background prevented them from knowingly executing the subject deed as mere accommodation mortgagors. Petitioners' claim of lack of "proper instruction on the intricacies in securing [the] loan from the bank" is further belied by the fact that petitioners Francisco and Rosario Sierra had previously mortgaged two (2) of the subject properties *twice* to the Rural Bank of Antipolo. Moreover, petitioners did not: (a) demand for any loan document containing the details of the transaction, *i.e.*, monthly amortization, interest rate, added charges, *etc.*, and the release of the remaining amount of their alleged loan; and (b) offer to pay the purported partial loan proceeds they received at any time,⁵² complaining thereof only in 1991 when they filed their complaint. Indeed, the foregoing circumstances clearly show that petitioners are aware that they were mere accommodation mortgagors, debunking their claim that mistake vitiated their consent to the mortgage.

Thus, there being valid consent on the part of petitioners to act as accommodation mortgagors, no reversible error was committed by the CA in setting aside the RTC's Decision declaring the real estate mortgage as void for vices of consent and awarding damages to petitioners. As mere accommodation mortgagors, petitioners are not entitled to the proceeds of the loan, nor were required to be furnished with the loan documents⁵³ or notice of the borrower's default in paying the principal, interests, penalties, and other charges on due date,⁵⁴ or of the extrajudicial foreclosure proceedings, unless stipulated in the subject deed.⁵⁵ As jurisprudence states, an accommodation mortgagor is a third person who is not a debtor to a principal obligation but merely secures it by mortgaging his or her own property.⁵⁶ Like an accommodation party to a negotiable instrument, the

⁵⁰ See *Leonardo v. CA*, supra note 48.

⁵¹ See *rollo*, p. 29.

⁵² See *id.* at 30-31.

⁵³ *Id.* at 32.

⁵⁴ Records, folder 1, p. 288.

⁵⁵ See *Union Bank of the Philippines v. CA*, G.R. No. 164910, September 30, 2005, 471 SCRA 751, 761-762.

⁵⁶ See *Spouses Belo v. Philippine National Bank*, 405 Phil. 851, 870 (2001). See also Article 2085 of the Civil Code.

accommodation mortgagor in effect becomes a surety to enable the accommodated debtor to obtain credit,⁵⁷ as petitioners in this case.

B. Prescription.

On a second matter, petitioners insist that the CA erred in ruling that their action for nullification of the subject deed had already prescribed, contending that the applicable provision is the ten-year prescriptive period of mortgage actions under Article 1142⁵⁸ of the Civil Code.

The contention is bereft of merit.

Based on case law, a **“mortgage action” refers to an action to enforce a right necessarily arising from a mortgage.**⁵⁹ In the present case, petitioners are **not “enforcing”** their rights under the mortgage but are, in fact, seeking to be relieved therefrom. The complaint filed by petitioners is, therefore, **not a mortgage action** as contemplated under Article 1142.

Considering, however, petitioners’ failure to establish that their consent to the mortgage was vitiated, rendering them without a *cause* of action, much less a *right* of action to annul the mortgage, the question of whether or not the complaint has prescribed becomes merely academic.⁶⁰

In any event, even assuming that petitioners have a valid cause of action, the four-year prescriptive period on voidable contracts⁶¹ shall apply. Since the complaint for annulment was anchored on a claim of mistake, *i.e.*, that petitioners are the borrowers under the loan secured by the mortgage, the action should have been brought within four (4) years from its discovery.

A perusal of the complaint, however, **failed to disclose when petitioners learned that they were not the borrowers under the loan secured by the subject mortgage.** Nonetheless, considering that petitioners admitted receipt on June 19, 1984⁶² of PSMB’s letter dated June 11, 1984 informing them of the scheduled foreclosure sale on June 27, 1984 due to GCI’s breach of its loan obligation secured by the subject properties, the discovery of the averred mistake should appear to be reckoned from June 19,

⁵⁷ See footnote 174 in *New Sampaguita Builders Construction, Inc. (NSBCI) v. PNB*, 479 Phil. 483, 529 (2004), citing *Sps. Gardose v. Tarroza*, 352 Phil. 797, 807 (1998).

⁵⁸ Art. 1142. A mortgage action prescribes after ten years.

⁵⁹ See *Dizon v. Philippine Veterans Bank*, G.R. No. 165938, November 25, 2009, 605 SCRA 441, 446-447.

⁶⁰ See *Cabcan v. NLRC*, 343 Phil. 467, 477 (1997).

⁶¹ Under Article 1390, in relation to Article 1391 of the Civil Code, where the consent of one of the contracting parties was vitiated by mistake, the contract is considered voidable and may be annulled within four (4) years from the time of the discovery of the mistake.

⁶² Records, folder 1, p. 348.

1984, and not from the dishonor of the checks on January 9, 1984 as ruled by the CA.


C. Laches.

As to this final issue, the Court holds that *laches* applies.


As the records disclose, despite notice on June 19, 1984 of the scheduled foreclosure sale, petitioners, **for unexplained reasons**, failed to impugn the real estate mortgage and oppose the public auction sale for a period of **more than seven (7) years from said notice**.⁶³ As such, petitioners' action is already barred by *laches*, which, as case law holds, operates not really to penalize neglect or sleeping on one's rights, but rather to avoid recognizing a right when to do so would result in a clearly inequitable situation.⁶⁴ As mortgagors desiring to attack a mortgage as invalid, petitioners should act with reasonable promptness, else its unreasonable delay may amount to ratification.⁶⁵ Verily, to allow petitioners to assert their right to the subject properties now after their unjustified failure to act within a reasonable time would be grossly unfair to PSMB, and perforce should not be sanctioned.


WHEREFORE, the petition is **DENIED**. The Decision dated June 27, 2011 of the Court of Appeals (CA) in CA-G.R. CV No. 91999 is hereby **AFFIRMED**.

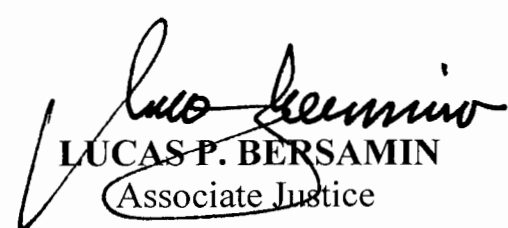
SO ORDERED.


ESTELA M. PERLAS-BERNABE
Associate Justice

WE CONCUR:


PRESBITERO J. VELASCO, JR.
Associate Justice


TERESITA J. LEONARDO-DE CASTRO
Associate Justice
Acting Chairperson


LUCAS P. BERSAMIN
Associate Justice

⁶³ The complaint was filed on September 16, 1991; id. at 1.

⁶⁴ *Far East Bank and Trust Company (now Bank of the Philippine Islands) v. Cayetano*, G.R. No. 179909, January 25, 2010, 611 SCRA 96, 104.


⁶⁵ *Ramos v. Obisno*, supra note 47.



JOSE PORTUGAL PEREZ
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.



TERESITA J. LEONARDO-DE CASTRO
Associate Justice
Acting Chairperson, First Division

CERTIFICATION

Pursuant to Section 13, Article VIII of the Constitution, and the Division Acting Chairperson's Attestation, I certify 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
Acting Chief Justice