



Republic of the Philippines
Supreme Court
 Manila

FIRST DIVISION

**NATIONAL
 CORPORATION,**

POWER

G.R. No. 175863

Petitioner,

Present:

-versus-

SERENO, C.J.,
 Chairperson,
 LEONARDO-DE CASTRO,
 BERSAMIN,
 PEREZ, and
 PERLAS-BERNABE, JJ.

**LUCMAN M. IBRAHIM,
 ATTY. OMAR G. MARUHOM,
 ELIAS G. MARUHOM, BUCAY
 G. MARUHOM, MAMOD G.
 MARUHOM, FAROUK G.
 MARUHOM, HIDJARA G.
 MARUHOM, ROCANIA G.
 MARUHOM, POTRISAM G.
 MARUHOM, LUMBA G.
 MARUHOM, SINAB G.
 MARUHOM, ACMAD G.
 MARUHOM, SOLAYMAN G.
 MARUHOM, MOHAMAD M.
 IBRAHIM, CAIRONESA M.
 IBRAHIM and MACAPANTON
 K. MANGONDATO**

Promulgated:

Respondents.

FEB 18 2015

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DECISION

PEREZ, J.:

At bench is a petition for review on *certiorari*¹

¹ Under Rule 45 of the Rules of Court. *Rollo*, pp. 9-34.

assailing the Decision² dated 24 June 2005 and Resolution³ dated 5 December 2006 of the Court of Appeals in CA-G.R. CV No. 68061.

The facts:

The Subject Land

In 1978, petitioner took possession of a 21,995 square meter parcel of land in Marawi City (subject land) for the purpose of building thereon a hydroelectric power plant pursuant to its *Agus I* project. The subject land, while in truth a portion of a private estate registered under Transfer Certificate of Title (TCT) No. 378-A⁴ in the name of herein respondent Macapanton K. Mangondato (Mangondato),⁵ was occupied by petitioner under the mistaken belief that such land is part of the vast tract of public land reserved for its use by the government under *Proclamation No. 1354, s. 1974*.⁶

Mangondato first discovered petitioner's occupation of the subject land in 1979—the year that petitioner started its construction of the *Agus I* plant. Shortly after such discovery, Mangondato began demanding compensation for the subject land from petitioner.

In support of his demand for compensation, Mangondato sent to petitioner a *letter*⁷ dated 28 September 1981 wherein the former detailed the origins of his ownership over the lands covered by TCT No. 378-A, including the subject land. The relevant portions of the letter read:

² The decision was penned by Associate Justice Edgardo A. Camello for the Twenty-First Division of the Court of Appeals with Associate Justices Teresita Dy-Liacco Flores and Myrna Dimaranan Vidal, concurring; *rollo*, pp. 39-48.

³ The resolution was penned by Associate Justice Edgardo A. Camello for the Special Former Twenty-Third Division of the Court of Appeals, with Associate Justices Teresita Dy-Liacco Flores and Romulo V. Borja, concurring; *id* at 49-51.

⁴ TCT No. 378-A covers two separate parcels of land: Lot 1 and Lot 3 of the survey plan *Plan F(VII-5)-2278* (Records, p. 245). Lot 1 measures 31,894 square meters whereas Lot 3 comes in at 21,191 square meters. The subject land is a piece of Lot 1; records, pp. 13-14.

⁵ Died on 28 January 2009; substituted by heirs Mamolowan, Haron, Sirikit Sohria, Tsiran, Sihan Norodin, Quezana Soraya, Sittie Aysa, Macapanton Nixon, Jr. and Shyrelina, all surnamed Mangondato.; motion for substitution granted by this Court in its resolution dated 18 August 2010; *rollo*, pp. 200-201; 205-206; 212-213..

⁶ Issued by President Ferdinand E. Marcos on 3 December 1974. The proclamation reserved 8,031,044 square meters of public land in Marawi City for the hydroelectric projects of petitioner National Power Corporation.

⁷ Records, pp. 25-27.

Now let me trace the basis of the title to the land adverted to for particularity. The land titled in my name was originally consisting of seven (7) hectares. This piece of land was particularly set aside by the Patriarch Maruhom, a fact recognized by all royal datus of Guimba, to belong to his eldest son, Datu Magayo-ong Maruhom. This is the very foundation of the right and ownership over the land in question which was titled in my name because as the son-in-law of Hadji Ali Maruhom the eldest son of, and only lawyer among the descendants of Datu Magayo-ong Maruhom, the authority and right to apply for the title to the land was given to me by said heirs after mutual agreement among themselves besides the fact that I have already bought a substantial portion of the original seven (7) hectares.

The original title of this seven (7) hectares has been subdivided into several TCTs for the other children of Datu Magayo-ong Maruhom with whom I have executed a quit claim. Presently, only three (3) hectares is left to me out of the original seven (7) hectares representing those portion [sic] belonging to my wife and those I have bought previously from other heirs. This is now the subject of this case.⁸

Petitioner, at first, rejected Mangondato's claim of ownership over the subject land; the former then adamant in its belief that the said land is public land covered by Proclamation No. 1354, s. 1974. But, after more than a decade, petitioner finally acquiesced to the fact that the subject land is private land covered by TCT No. 378-A and consequently acknowledged Mangondato's right, as registered owner, to receive compensation therefor.

Thus, during the early 1990s, petitioner and Mangondato partook in a series of communications aimed at settling the amount of compensation that the former ought to pay the latter in exchange for the subject land. Ultimately, however, the communications failed to yield a genuine consensus between petitioner and Mangondato as to the fair market value of the subject land.

Civil Case No. 605-92 and Civil Case No. 610-92

With an agreement basically out of reach, Mangondato filed a complaint for reconveyance against petitioner before the Regional Trial Court (RTC) of Marawi City in July 1992. In his complaint, Mangondato asked for, among others, the recovery of the subject land and the payment by petitioner of a monthly rental from 1978 until the

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Id. at 26.

return of such land. Mangondato's complaint was docketed as **Civil Case No. 605-92**.

For its part, petitioner filed an expropriation complaint⁹ before the RTC on 27 July 1992. Petitioner's complaint was docketed as **Civil Case No. 610-92**.

Later, Civil Case No. 605-92 and Civil Case No. 610-92 were consolidated before Branch 8 of the Marawi City RTC.

On 21 August 1992, Branch 8 of the Marawi City RTC rendered a Decision¹⁰ in Civil Case No. 605-92 and Civil Case No. 610-92. The decision upheld petitioner's right to expropriate the subject land: it denied Mangondato's claim for reconveyance and decreed the subject land condemned in favor of the petitioner, effective July of 1992, subject to payment by the latter of just compensation in the amount of ₱21,995,000.00. Anent petitioner's occupation of the subject land from 1978 to July of 1992, on the other hand, the decision required the former to pay rentals therefor at the rate of ₱15,000.00 per month with 12% interest per annum. The decision's *fallo* reads:

WHEREFORE, the prayer in the recovery case for [petitioner's] surrender of the property is denied but [petitioner] is ordered to pay monthly rentals in the amount of ₱15,000.00 from 1978 up to July 1992 with 12% interest per annum xxx and the property is condemned in favor of [petitioner] effective July 1992 upon payment of the fair market value of the property at One Thousand (₱1,000.00) Pesos per square meter or a total of Twenty-One Million Nine Hundred Ninety-Five Thousand (₱21,995,000.00) [P]esos.¹¹

Disagreeing with the amount of just compensation that it was adjudged to pay under the said decision, petitioner filed an appeal with the Court of Appeals. This appeal was docketed in the Court of Appeals as **CA-G.R. CV No. 39353**.

Respondents Ibrahims and Maruhoms and Civil Case No. 967-93

⁹ Id. at 31-33.

¹⁰ Id. at 34-41.

¹¹ Id. at 41.

During the pendency of CA-G.R. CV No. 39353, or on 29 March 1993, herein respondents the Ibrahims and Maruhoms¹² filed before the RTC of Marawi City a complaint¹³ against Mangondato and petitioner. This complaint was docketed as **Civil Case No. 967-93** and was raffled to Branch 10 of the Marawi City RTC.

In their complaint, the Ibrahims and Maruhoms disputed Mangondato's ownership of the lands covered by TCT No. 378-A, including the subject land. The Ibrahims and Maruhoms asseverate that they are the real owners of the lands covered by TCT No. 378-A; they being the lawful heirs of the late *Datu Magayo-ong Maruhom*, who was the original proprietor of the said lands.¹⁴ They also claimed that Mangondato actually holds no claim or right over the lands covered by TCT No. 378-A except that of a trustee who merely holds the said lands *in trust* for them.¹⁵

The Ibrahims and Maruhoms submit that since they are the real owners of the lands covered by TCT No. 378-A, they should be the ones entitled to any rental fees or expropriation indemnity that may be found due for the subject land.

Hence, the Ibrahims and Maruhoms prayed for the following reliefs in their complaint:¹⁶

1. That Mangondato be ordered to execute a *Deed of Conveyance* transferring to them the ownership of the lands covered by TCT No. 378-A;
2. That petitioner be ordered to pay to them whatever indemnity for the subject land it is later on adjudged to pay in Civil Case No. 605-92 and Civil Case No. 610-92;
3. That Mangondato be ordered to pay to them any amount that the former may have received from the petitioner by way of indemnity for the subject land;

¹² For purposes of this decision refers to herein respondents Lucman M. Ibrahim, Omar G. Maruhom, Elias G. Maruhom, Bucay G. Maruhom, Mamod G. Maruhom, Farouk G. Maruhom, Hidjara G. Maruhom, Rocania G. Maruhom, Potrisam G. Maruhom, Lumba G. Maruhom, Sinab G. Maruhom, Acmad G. Maruhom, Solayman G. Maruhom, Mohamad M. Ibrahim and Caironesa M. Ibrahim.

¹³ Records, pp. 3-9.

¹⁴ Id.

¹⁵ Id.

¹⁶ Id. at 8-9.

4. That petitioner and Mangondato be ordered jointly and severally liable to pay attorney's fees in the sum of ₱200,000.00.

In the same complaint, the Ibrahims and Maruhoms also prayed for the issuance of a temporary restraining order (TRO) and a writ of preliminary injunction to enjoin petitioner, during the pendency of the suit, from making any payments to Mangondato concerning expropriation indemnity for the subject land.¹⁷

On 30 March 1993, Branch 10 of the Marawi City RTC granted the prayer of the Ibrahims and Maruhoms for the issuance of a TRO.¹⁸ On 29 May 1993, after conducting an appropriate hearing for the purpose, the same court likewise granted the prayer for the issuance of a writ of preliminary injunction.¹⁹

In due course, trial then ensued in Civil Case No. 967-93.

The Decision of the Court of Appeals in CA-G.R. CV No. 39353 and the Decision of this Court in G.R. No. 113194

On 21 December 1993, the Court of Appeals rendered a Decision in CA-G.R. CV No. 39353 denying the appeal of petitioner and affirming *in toto* the 21 August 1992 Decision in Civil Case No. 605-92 and Civil Case No. 610-92. Undeterred, petitioner next filed a petition for review on *certiorari* with this Court that was docketed herein as **G.R. No. 113194**.²⁰

On 11 March 1996, we rendered our Decision in G.R. No. 113194 wherein we upheld the Court of Appeals' denial of petitioner's appeal.²¹ In the same decision, we likewise sustained the appellate court's affirmance of the decision in Civil Case No. 605-92 and Civil Case No. 610-92 subject only to a reduction of the rate of interest on the monthly rental fees from 12% to 6% per annum.²²

¹⁷ Id. at 8.

¹⁸ Id. at 20-21.

¹⁹ Id. at 115.

²⁰ Entitled *National Power Corporation v. CA*, 325 Phil. 29 (1996).

²¹ Id.

²² Id. at 50.

Our decision in G.R. No. 113194 eventually became final and executory on 13 May 1996.²³

*Execution of the 21 August 1992 Decision in Civil Case No. 605-92
and Civil Case No. 610-92, as Modified*

In view of the finality of this Court's decision in G.R. No. 113194, Mangondato filed a motion for execution of the decision in Civil Case No. 605-92 and Civil Case No. 610-92.²⁴ Against this motion, however, petitioner filed an opposition.²⁵

In its opposition, petitioner adverted to the existence of the writ of preliminary injunction earlier issued in Civil Case No. 967-93 that enjoins it from making any payment of expropriation indemnity over the subject land in favor of Mangondato.²⁶ Petitioner, in sum, posits that such writ of preliminary injunction constitutes a legal impediment that effectively bars any meaningful execution of the decision in Civil Case No. 605-92 and Civil Case No. 610-92.

Finding no merit in petitioner's opposition, however, Branch 8 of the Marawi City RTC rendered a Resolution²⁷ dated 4 June 1996 ordering the issuance of a writ of execution in favor of Mangondato in Civil Case No. 605-92 and Civil Case No. 610-92. Likewise, in the same resolution, the trial court ordered the issuance of a notice of garnishment against several of petitioner's bank accounts²⁸ for the amount of **₱21,801,951.00**—the figure representing the total amount of judgment debt due from petitioner in Civil Case No. 605-92 and Civil Case No. 610-92 less the amount then already settled by the latter. The dispositive portion of the resolution reads:

WHEREFORE, let a Writ of Execution and the corresponding order or notice of garnishment be immediately issued against [petitioner] and in favor of [Mangondato] for the amount of Twenty One Million Eight Hundred One Thousand and Nine Hundred Fifty One (₱21,801,951.00) Pesos.

²³ See Resolution dated 4 June 1996 of the Regional Trial Court, Branch 8, of Marawi City in Civil Case No. 605-92 and Civil Case No. 610-92; records, pp. 292-294.

²⁴ See id. at 292.

²⁵ See id. at 292.

²⁶ See id. at 292.

²⁷ Records, pp. 292-294.

²⁸ Those identified in the resolution are petitioner's accounts with the Philippine National Bank (PNB) and the Land Bank of the Philippines (LBP).

x x x.²⁹

Pursuant to the above resolution, a notice of garnishment³⁰ dated 5 June 1996 for the amount of ₱21,801,951.00 was promptly served upon the Philippine National Bank (PNB)—the authorized depository of petitioner. Consequently, the amount thereby garnished was paid to Mangondato in full satisfaction of petitioner's judgment debt in Civil Case No. 605-92 and Civil Case No. 610-92.

Decision in Civil Case No. 967-93

Upon the other hand, on 16 April 1998, Branch 10 of the Marawi City RTC decided Civil Case No. 967-93.³¹ In its decision, Branch 10 of the Marawi City RTC made the following relevant findings:³²

1. The Ibrahims and Maruhoms—not Mangondato—are the true owners of the lands covered by TCT No. 378-A, which includes the subject land.
2. The subject land, however, could no longer be reconveyed to the Ibrahims and Maruhoms since the same was already expropriated and paid for by the petitioner under Civil Case No. 605-92 and Civil Case No. 610-92.
3. Be that as it may, the Ibrahims and Maruhoms, as true owners of the subject land, are the rightful recipients of whatever rental fees and indemnity that may be due for the subject land as a result of its expropriation.

Consistent with the foregoing findings, Branch 10 of the Marawi City RTC thus required payment of all the rental fees and expropriation indemnity due for the subject land, as previously adjudged in Civil Case No. 605-92 and Civil Case No. 610-92, to the Ibrahims and Maruhoms.

²⁹ Records, p. 294.

³⁰ Id. at 287. The Notice of Garnishment was received by PNB on 5 June 1996 (Records, pp. 288-289).

³¹ Id. at 539-550.

³² Id.

Notable in the trial court's decision, however, was that it held both Mangondato and the petitioner *solidarily liable* to the Ibrahims and Maruhoms for the rental fees and expropriation indemnity adjudged in Civil Case No. 605-92 and Civil Case No. 610-92.³³

In addition, Mangondato and petitioner were also decreed solidarily liable to the Ibrahims and Maruhoms for attorney's fees in the amount of ₱200,000.00.³⁴

The pertinent dispositions in the decision read:

WHEREFORE, premises considered, judgment is hereby rendered in favor of [the Ibrahims and Maruhoms] and against [Mangondato and petitioner] as follows:

1. x x x
2. Ordering [Mangondato and petitioner] to pay jointly and severally [the Ibrahims and Maruhoms] all forms of expropriation indemnity as adjudged for [the subject land] consisting of 21,995 square meters in the amount of ₱21,801,051.00 plus other forms of indemnity such as rentals and interests;
3. Ordering [Mangondato and petitioner] to pay [the Ibrahims and Maruhoms] jointly and severally the sum of ₱200,000.00 as attorney's fees;
4. x x x
5. x x x
6. x x x

SO ORDERED.³⁵

*Petitioner's Appeal to the Court of Appeals and the Execution
Pending Appeal of the Decision in Civil Case No. 967-93*

Petitioner appealed the decision in Civil Case No. 967-93 with the Court of Appeals: contesting mainly the holding in the said decision that it ought to be solidarily liable with Mangondato to pay to the Ibrahims and Maruhoms the rental fees and expropriation indemnity adjudged due for the subject land. This appeal was docketed as **CA-G.R. CV No. 68061**.

³³ Id. at 549.

³⁴ Id. at 550.

³⁵ Id.

While the foregoing appeal was still pending decision by the Court of Appeals, however, the Ibrahims and Maruhoms were able to secure with the court *a quo* a writ of execution pending appeal³⁶ of the decision in Civil Case No. 967-93. The enforcement of such writ led to the garnishment of Mangondato's moneys in the possession of the Social Security System (SSS) in the amount of ₱2,700,000.00 on 18 September 1998.³⁷ Eventually, the amount thereby garnished was paid to the Ibrahims and Mangondato in partial satisfaction of the decision in Civil Case No. 967-93.

On 24 June 2005, the Court of Appeals rendered its Decision³⁸ in CA-G.R. CV No. 68061 denying petitioner's appeal. The appellate court denied petitioner's appeal and affirmed the decision in Civil Case No. 967-93, subject to the right of petitioner to deduct the amount of ₱2,700,000.00 from its liability as a consequence of the partial execution of the decision in Civil Case No. 967-93.³⁹

Hence, the present appeal by petitioner.

The Present Appeal

The present appeal poses the question of whether it is correct, in view of the facts and circumstances in this case, to hold petitioner liable in favor of the Ibrahims and Maruhoms for the rental fees and expropriation indemnity adjudged due for the subject land.

In their respective decisions, both Branch 10 of the Marawi City RTC and the Court of Appeals had answered the foregoing question in the affirmative. The two tribunals postulated that, notwithstanding petitioner's previous payment to Mangondato of the rental fees and expropriation indemnity as a consequence of the execution of the decision in Civil Case No. 605-92 and 610-92, petitioner may still be held liable to the Ibrahims and Maruhoms for such fees and indemnity because its previous payment to Mangondato

³⁶ On 22 June 1998, Branch 10 of the Marawi City RTC issued a resolution granting the motion for execution pending appeal of the Ibrahims and Maruhoms. After the Ibrahims and Maruhoms posted the required bond in the amount of ₱21,801,051.00, the trial court issued a writ of execution pending appeal in their favor on 7 July 1998; records, pp. 1058-1059).

³⁷ See Sheriff's Return of Service; *id.* at 1079-1082.

³⁸ *Rollo*, pp. 39-48.

³⁹ *Id.* at 48.

was tainted with “*bad faith*.”⁴⁰ As proof of such bad faith, both courts cite the following considerations:⁴¹

1. Petitioner “*allowed*” payment to Mangondato despite its prior knowledge, which dates back as early as 28 September 1981, by virtue of Mangondato’s letter of even date, that the subject land was owned by a certain Datu Magayo-ong Maruhom and not by Mangondato; *and*
2. Petitioner “*allowed*” such payment despite the issuance of a TRO and a writ of preliminary injunction in Civil Case No. 967-93 that precisely enjoins it from doing so.

For the two tribunals, the bad faith on the part of petitioner rendered its previous payment to Mangondato invalid insofar as the Ibrahims and Maruhoms are concerned. Hence, both courts concluded that petitioner may still be held liable to the Ibrahims and Maruhoms for the rental fees and expropriation indemnity previously paid to Mangondato.⁴²

Petitioner, however, argues otherwise. It submits that a finding of bad faith against it would have no basis in fact and law, given that it merely complied with the final and executory decision in Civil Case No. 605-92 and Civil Case No. 610-92 when it paid the rental fees and expropriation indemnity due the subject to Mangondato.⁴³ Petitioner thus insists that it should be absolved from any liability to pay the rental fees and expropriation indemnity to the Ibrahims and Maruhoms and prays for the dismissal of Civil Case No. 967-93 against it.

OUR RULING

We grant the appeal.

No Bad Faith On The Part of Petitioner

⁴⁰ Id. at 39-48.

⁴¹ Id.

⁴² Id.

⁴³ Id. at 9-34.

Petitioner is correct. No “*bad faith*” may be taken against it in paying Mangondato the rental fees and expropriation indemnity due the subject land.

Our case law is not new to the concept of *bad faith*. Decisions of this Court, both old and new, had been teeming with various pronouncements that illuminate the concept amidst differing legal contexts. In any attempt to understand the basics of bad faith, it is mandatory to take a look at some of these pronouncements:

In *Lopez, et al. v. Pan American World Airways*,⁴⁴ a 1966 landmark tort case, we defined the concept of bad faith as:

“...a breach of a known duty through some motive of interest or ill will.”⁴⁵

Just months after the promulgation of *Lopez*, however, came the case of *Air France v. Carrasco, et al.*,⁴⁶ In *Air France*, we expounded on *Lopez*’s definition by describing bad faith as:

“xxx a state of mind affirmatively operating with furtive design or with some motive of self-interest or will or for ulterior purpose.”⁴⁷

Air France’s articulation of the meaning of bad faith was, in turn, echoed in a number subsequent cases,⁴⁸ one of which, is the 2009 case of *Balbuena, et al. v. Sabay, et al.*⁴⁹

In the 1967 case of *Board of Liquidators v. Heirs of M. Kalaw*,⁵⁰ on the other hand, we enunciated one of the more oft-repeated formulations of bad faith in our case law:

“xxx bad faith does not simply connote bad judgment or negligence; it imports a dishonest purpose or some moral obliquity and conscious doing of wrong. It means breach of a known duty

⁴⁴ 123 Phil. 256 (1966).

⁴⁵ Id. at 264-265, citing *Spiegel v. Beacon Participations*, 8 N.E. (2d) 895, 907.

⁴⁶ 124 Phil. 722 (1966).

⁴⁷ Id. at 737, citing *Words & Phrases*, Perm. Ed., Vol. 5, p. 13.

⁴⁸ *Romualdez-Yap v. Civil Service Commission*, G.R. No. 104226, 12 August 1993, 225 SCRA 285, 293; *Samson v. Court of Appeals*, G.R. No. 108245, 25 November 1994, 238 SCRA 397, 404.

⁴⁹ 614 Phil. 402, 414 (2009).

⁵⁰ 127 Phil. 399 (1967).

thru some motive or interest of ill will; it partakes of the nature of fraud.”⁵¹

As a testament to its enduring quality, the foregoing pronouncement in *Board of Liquidators* had been reiterated in a slew of later cases,⁵² more recently, in the 2009 case of *Nazareno, et al. v. City of Dumaguete*⁵³ and the 2012 case of *Aliling v. Feliciano*.⁵⁴

Still, in 1995, the case of *Far East Bank and Trust Company v. Court of Appeals*⁵⁵ contributed the following description of bad faith in our jurisprudence:

“Malice or bad faith implies a conscious and intentional design to do a wrongful act for a dishonest purpose or moral obliquity;xxx.”⁵⁶

The description of bad faith in *Far East Bank and Trust Company* then went on to be repeated in subsequent cases such as 1995’s *Ortega v. Court of Appeals*,⁵⁷ 1997’s *Laureano Investment and Development Corporation v. Court of Appeals*,⁵⁸ 2010’s *Lambert Pawnbrokers v. Binamira*⁵⁹ and 2013’s *California Clothing, Inc., v. Quiñones*,⁶⁰ to name a few.

Verily, the clear denominator in all of the foregoing judicial pronouncements is that the essence of bad faith consists in the *deliberate* commission of a *wrong*. Indeed, the concept has often been equated with malicious or fraudulent motives, yet distinguished from the mere unintentional wrongs resulting from mere simple negligence or oversight.⁶¹

A finding of bad faith, thus, usually assumes the presence of two (2) elements: *first*, that the actor knew or should have known that

⁵¹ Id. at 421, citing *Spiegel v. Beacon Participations*, 8 N.E. (2d) 895, 907.

⁵² *Equatorial Realty Development, Inc. v. Judge Anunciacion, Jr.*, 345 Phil. 815, 820 (1997); *Sps. De Leon v. Hon. Judge Bonifacio*, 345 Phil. 667, 676 (1997); *Abando v. Lozada*, 258-A Phil. 288, 295 (1989); *Ford Philippines, Inc. v. Court of Appeals*, 335 Phil. 1, 9 (1997).

⁵³ 607 Phil. 768, 804 (2009).

⁵⁴ G.R. No. 185829, 25 April 2012, 671 SCRA 186, 216.

⁵⁵ 311 Phil. 783 (1995).

⁵⁶ Id. at 788.

⁵⁷ 315 Phil. 573, 583 (1995).

⁵⁸ 338 Phil. 759, 771 (1997).

⁵⁹ G.R. No. 170464, 12 July 2010, 624 SCRA 705, 719.

⁶⁰ G.R. No. 175822, 23 October 2013, 708 SCRA 420, 429.

⁶¹ See notes 48, 49, 50 and 51.

a particular course of action is wrong or illegal, and *second*, that despite such actual or imputable knowledge, the actor, voluntarily, consciously and out of his own free will, proceeds with such course of action. Only with the concurrence of these two elements can we begin to consider that the wrong committed had been done *deliberately* and, thus, in bad faith.

In this case, both Branch 10 of the Marawi City RTC and the Court of Appeals held that petitioner was in bad faith when it paid to Mangondato the rental fees and expropriation indemnity due the subject land. The two tribunals, in substance, fault petitioner when it “*allowed*” such payment to take place despite the latter’s alleged knowledge of the existing claim of the Ibrahims and Maruhoms upon the subject land and the issuance of a TRO in Civil Case No. 967-93. Hence, the two tribunals claim that petitioner’s payment to Mangondato is ineffective as to the Ibrahims and Maruhoms, whom they found to be the real owners of the subject land.

We do not agree.

Branch 10 of the Marawi City RTC and the Court of Appeals erred in their finding of bad faith because they have overlooked the utter significance of one important fact: **that petitioner’s payment to Mangondato of the rental fees and expropriation indemnity adjudged due for the subject land in Civil Case No. 605-92 and Civil Case No. 610-92, was required by the final and executory decision in the said two cases and was compelled thru a writ of garnishment issued by the court that rendered such decision.** In other words, the payment to Mangondato was **not a product of a deliberate choice** on the part of the petitioner but was made only in compliance to the lawful orders of a court with jurisdiction.

Contrary then to the view of Branch 10 of the Marawi City RTC and of the Court of Appeals, it was not the petitioner that “*allowed*” the payment of the rental fees and expropriation indemnity to Mangondato. Indeed, given the circumstances, the more accurate rumination would be that it was the trial court in Civil Case No. 605-92 and Civil Case No. 610-92 that ordered or allowed the payment to Mangondato and that petitioner merely complied with the order or allowance by the trial court. Since petitioner was only acting under the lawful orders of a court in paying Mangondato, we find that no bad faith can be taken against it, *even assuming* that petitioner may

have had prior knowledge about the claims of the Ibrahims and Maruhoms upon the subject land and the TRO issued in Civil Case No. 967-93.

***Sans Bad Faith, Petitioner
Cannot Be Held Liable to the
Ibrahims and Maruhoms***

Without the existence of bad faith, the ruling of the RTC and of the Court of Appeals apropos petitioner's remaining liability to the Ibrahims and Maruhoms becomes devoid of legal basis. In fact, petitioner's previous payment to Mangondato of the rental fees and expropriation indemnity due the subject land pursuant to the final judgment in Civil Case No. 605-92 and Civil Case No. 610-92 may be considered to have extinguished the former's obligation **regardless of who between Mangondato, on one hand, and the Ibrahims and Maruhoms, on the other, turns out to be the real owner of the subject land.**⁶² Either way, petitioner cannot be made liable to the Ibrahims and Maruhoms:

First. If Mangondato is the real owner of the subject land, then the obligation by petitioner to pay for the rental fees and expropriation indemnity due the subject land is already deemed extinguished by the latter's previous payment under the final judgment in Civil Case No. 605-92 and Civil Case No. 610-92. This would be a simple case of an obligation being extinguished through payment by the debtor to its creditor.⁶³ Under this scenario, the Ibrahims and Maruhoms would not even be entitled to receive anything from anyone for the subject land. Hence, petitioner cannot be held liable to the Ibrahims and Maruhoms.

Second. We, however, can reach the same conclusion even if the Ibrahims and Maruhoms turn out to be the real owners of the subject land.

Should the Ibrahims and Maruhoms turn out to be the real owners of the subject land, petitioner's previous payment to Mangondato pursuant to Civil Case No. 605-92 and Civil Case No. 610-92—given the absence of bad faith on petitioner's part as

⁶² It may be stressed at this point that the present appeal does not deal with the issue of who is the rightful owner of the subject land. Rather, the issue in this appeal is limited only to the subsisting liability of petitioner to the Ibrahims and Maruhoms, if any.

⁶³ Article 1231(1) in relation to Article 1240 of the Civil Code of the Philippines.

previously discussed—may nonetheless be considered as *akin* to a **payment made in “good faith” to a person in “possession of credit” per Article 1242 of the Civil Code** that, just the same, extinguishes its obligation to pay for the rental fees and expropriation indemnity due for the subject land. Article 1242 of the Civil Code reads:

“Payment made in good faith to any person in possession of the credit shall release the debtor.”

Article 1242 of the Civil Code is an exception to the rule that a valid payment of an obligation can only be made to the person to whom such obligation is rightfully owed.⁶⁴ It contemplates a situation where a debtor pays a “*possessor of credit*” i.e., someone who is not the real creditor but appears, under the circumstances, to be the real creditor.⁶⁵ In such scenario, the law considers the payment to the “*possessor of credit*” as valid even as against the real creditor taking into account the good faith of the debtor.

Borrowing the principles behind Article 1242 of the Civil Code, we find that Mangondato—being the judgment creditor in Civil Case No. 605-92 and Civil Case No. 610-92 as well as the registered owner of the subject land at the time⁶⁶—may be considered as a “*possessor of credit*” with respect to the rental fees and expropriation indemnity adjudged due for the subject land in the two cases, if the Ibrahims and Maruhoms turn out to be the real owners of the subject land. Hence, petitioner’s payment to Mangondato of the fees and indemnity due for the subject land as a consequence of the execution of Civil Case No. 605-92 and Civil Case No. 610-92 could still validly extinguish its obligation to pay for the same even as against the Ibrahims and Maruhoms.

Effect of Extinguishment of Petitioner’s Obligation

The extinguishment of petitioner’s obligation to pay for the rental fees and expropriation indemnity due the subject land carries with it certain legal effects:

⁶⁴ Tolentino, *Civil Code of the Philippines*, Vol. IV, 2002 Ed., p. 289

⁶⁵ *Id.*

⁶⁶ See *Sps. Alcaraz v. Tangga-an*, 449 Phil. 62, 73 (2003).

First. **If** Mangondato turns out to be the real owner of the subject land, the Ibrahims and Maruhoms would not be entitled to recover anything from anyone for the subject land. Consequently, the partial execution of the decision in Civil Case No. 967-93 that had led to the garnishment of Mangondato's moneys in the possession of the Social Security System (SSS) in the amount of ₱2,700,000.00 in favor of the Ibrahims and Maruhoms, becomes improper and unjustified. In this event, therefore, the Ibrahims and Maruhoms may be ordered to return the amount so garnished to Mangondato.

Otherwise, *i.e. if* the Ibrahims and Maruhoms really are the true owners of the subject land, they may only recover the rental fees and expropriation indemnity due the subject land against Mangondato but only up to whatever payments the latter had previously received from petitioner pursuant to Civil Case No. 605-92 and Civil Case No. 610-92.

Second. At any rate, the extinguishment of petitioner's obligation to pay for the rental fees and expropriation indemnity due the subject land negates whatever cause of action the Ibrahims and Maruhoms might have had against the former in Civil Case No. 967-93. **Hence, regardless of who between Mangondato, on one hand, and the Ibrahims and Maruhoms, on the other, turns out to be the real owner of the subject land, the dismissal of Civil Case No. 967-93 insofar as petitioner is concerned is called for.**

Re: Attorney's Fees

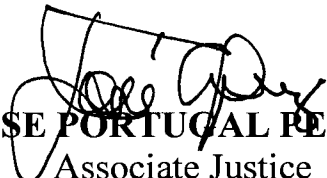
The dismissal of Civil Case No. 967-93 as against petitioner necessarily absolves the latter from paying attorney's fees to the Ibrahims and Maruhoms arising from that case.

WHEREFORE, premises considered, the instant petition is **GRANTED**. The Decision dated 24 June 2005 and Resolution dated 5 December 2006 of the Court of Appeals in CA-G.R. CV No. 68061 is hereby **SET ASIDE**. The Decision dated 16 April 1998 of the Regional Trial Court in Civil Case No. 967-93 is **MODIFIED** in that petitioner is absolved from any liability in that case in favor of the respondents Lucman M. Ibrahim, Atty. Omar G. Maruhom, Elias G. Maruhom, Bucay G. Maruhom, Mamod G. Maruhom, Farouk G. Maruhom, Hidjara G. Maruhom, Rocania G. Maruhom, Potrisam G.


Maruhom, Lumba G. Maruhom, Sinab G. Maruhom, Acmad G. Maruhom, Solayman G. Maruhom, Mohamad M. Ibrahim and Caironesa M. Ibrahim. Civil Case No. 967-93 is **DISMISSED** as against petitioner.


No costs.

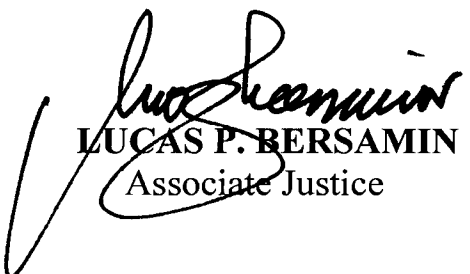
SO ORDERED.



JOSE PORTUGAL PEREZ
Associate Justice

WE CONCUR:


MARIA LOURDES P. A. SERENO
Chief Justice
Chairperson



TERESITA J. LEONADRO-DE CASTRO
Associate Justice


LUCAS P. BERSAMIN
Associate Justice


ESTELA M. PERLAS-BERNABE
Associate Justice

CERTIFICATION

Pursuant to Section 13, Article VIII of the Constitution, 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.


MARIA LOURDES P.A. SERENO
Chief Justice