



Republic of the Philippines
Supreme Court
Manila

FIRST DIVISION

REDENTOR CATAPANG and
CASIANA CATAPANG GARBIN,
Petitioners,

G.R. No. 240645

Present:

-versus-

PERALTA, C.J., Chairperson,
CAGUIOA,
J. REYES, JR.,
LAZARO-JAVIER, and
LOPEZ, JJ.

LIPA BANK,

Respondent.

Promulgated:

JAN 27 2020

X -----X

DECISION

CAGUIOA, J.:

Before the Court is a Petition for Review on *Certiorari*¹ (Petition) filed under Rule 45 of the Rules of Court by petitioner Redentor Catapang (petitioner Redentor) and his aunt, petitioner Casiana Catapang Garbin (petitioner Casiana), assailing the Decision² dated October 25, 2017 (assailed Decision) and Resolution³ dated July 10, 2018 (assailed Resolution) of the Court of Appeals (CA) in CA – G.R. CV No. 99885.

The Facts and Antecedent Proceedings

As culled from the CA's recital of the facts and the records of the instant case, the essential facts and antecedent proceedings are as follows:

Petitioner Redentor and his aunt, petitioner Casiana, alleged that the former's parents, the Spouses Alejandro and Rosalinda Catapang (Sps. Catapang), obtained a loan from respondent Lipa Bank. The loan was secured

¹ *Rollo*, pp. 12-32.

² *Id.* at 34-49. Penned by Associate Justice Zenaida T. Galapate-Laguilles, with Associate Justices Magdangal M. De Leon and Franchito N. Diamante, concurring.

³ *Id.* at 51-52.

by a Deed of Real Estate Mortgage over the Sps. Catapang's property located at Barrio Namuco, Rosario, Batangas, covered by Transfer Certificate of Title (TCT) No. T-50140.⁴

As the Sps. Catapang failed to pay their loan obligation, the mortgage was foreclosed. The Sps. Catapang also failed to exercise their right of redemption. Thereafter, in February 1999, the aforesaid property was consolidated in the name of respondent Lipa Bank and a new title, *i.e.*, TCT No. 102308, was issued in its favor.⁵

Subsequently, the Sps. Catapang, who were allowed by respondent Lipa Bank to stay in the property, offered to repurchase the property. However, respondent Lipa Bank refused to negotiate with them. Instead, in June 1999, respondent Lipa Bank offered to sell the property to petitioner Redentor, who respondent Lipa Bank perceived to be in a better financial position, for the amount of ₱1,500,000.00. Respondent Lipa Bank then executed a Sales Contract⁶ dated June 30, 1999 with petitioner Redentor, which provided that a downpayment of ₱400,000.00 should be paid by petitioner Redentor upon the signing and execution of the Sales Contract.

However, out of the required ₱400,000.00 downpayment, only the amount of ₱200,000.00 was paid by petitioner Redentor. In order to secure the complete amount of downpayment, upon the advice of respondent Lipa Bank's loan division head, Mr. Damian, petitioner Redentor supposedly secured a loan of ₱270,000.00 with respondent Lipa Bank. As collateral for the said loan, petitioner Redentor presented and submitted to respondent Lipa Bank the owner's duplicate copy of a TCT covering a certain parcel of land registered in the name of his aunts Gregoria Catapang and petitioner Casiana,⁷ *i.e.*, TCT No. T-52886⁸ (the subject property).

Allegedly, without petitioner Redentor's knowledge and consent, respondent Lipa Bank successfully convinced petitioner Casiana to sign a Promissory Note⁹ dated June 30, 1999 for a ₱270,000.00 loan and a Deed of Real Estate Mortgage¹⁰ dated August 6, 1999 over the subject property for ₱1,440,000.00.¹¹

Petitioners Redentor and Casiana alleged that the execution of the aforesaid Promissory Note and Deed of Real Estate Mortgage was tainted with fraud, undue influence, and trickery, considering that petitioner Casiana was allegedly not a borrower of respondent Lipa Bank and that she has never been a party to the Sales Contract. Petitioner Casiana also alleged that she did not

⁴ Id. at 84.

⁵ Id. at 14, 35.

⁶ Id. at 85-86.

⁷ Id. at 35-36.

⁸ Id. at 87-88.

⁹ Id. at 88-A.

¹⁰ Id. at 89.

¹¹ Id. at 36.



receive any proceeds from the ₱270,000.00 loan. In short, petitioners Redentor and Casiana allege that the Promissory Note and Deed of Real Estate Mortgage executed by the latter supposedly in relation to the Sales Contract were procured with fraud as petitioner Casiana had nothing to do with the repurchase of the subject property.¹²

Hence, petitioners Redentor and Casiana filed a Complaint¹³ dated February 14, 2006 before the Regional Trial Court of Rosario, Batangas, Branch 87 (RTC), praying that the Promissory Note and the Deed of Real Estate Mortgage be declared null and void. Petitioners Redentor and Casiana also prayed that the Sales Contract be declared null and void, arguing that it was dependent on the supposedly null and void Promissory Note and Deed of Real Estate Mortgage. Further, petitioners Redentor and Casiana also asked for the refund of the amount of ₱200,000.00 paid by petitioner Redentor and for the return by respondent Lipa Bank of the owner's duplicate copy of TCT No. T-52886. The case was docketed as Civil Case No. 06-010.

On the part of respondent Lipa Bank, it alleged in its Answer with Counterclaim¹⁴ dated May 18, 2006 that petitioner Redentor voluntarily entered into a Sales Contract with the former on June 30, 1999, with petitioner Redentor's father Alejandro even witnessing the execution of the said Contract. Petitioner Redentor was able to pay ₱200,000.00 of the ₱400,000.00 downpayment that was agreed upon by the parties. Respondent Lipa Bank then claimed that it was petitioner Redentor himself who wanted to secure a loan in the amount of ₱270,000.00 in order to fully pay the downpayment. According to respondent Lipa Bank, it was petitioner Redentor, together with petitioner Casiana, who voluntarily and willingly submitted to respondent Lipa Bank the owner's duplicate copy of TCT No. T-52886 so that the subject property could be used as collateral to secure the loan.

With respect to the Promissory Note for ₱270,000.00 and Deed of Real Estate Mortgage, respondent Lipa Bank, through its lone witness, respondent Lipa Bank's Vice President, Johnson Melo (Melo), claimed that such transactions were entered into by petitioner Casiana as transactions separate from the Sales Contract.¹⁵ According to respondent Lipa Bank, petitioner Casiana issued the Promissory Note in the amount of ₱270,000.00, as secured by the Deed of Real Estate Mortgage, not in relation to the Sales Contract, but for the purchase of machineries, preventive maintenance of rice mill equipment, and for a motor vehicle repair shop, as indicated on the face of the Promissory Note. Also, respondent Lipa Bank alleged that petitioner Casiana received the net proceeds of her personal loan with respondent Lipa Bank, as evidenced by a Disbursement Voucher and Credit Ticket.¹⁶

¹² Id. at 78-79.

¹³ Id. at 76-83.

¹⁴ Id. at 96-106.

¹⁵ Id. at 164.

¹⁶ Id. at 164-165.



The Ruling of the RTC

After the trial, the RTC issued its Decision¹⁷ dated September 9, 2011, the dispositive portion of which reads:

WHEREFORE, judgment is hereby rendered:

- (a) Declaring the Sales Contract entered into by plaintiff Redentor Catapang with defendant bank as valid and effective;
- (b) Declaring the Promissory Note and Real Estate Mortgage signed by plaintiff Casiana Catapang null and void and ineffective;
- (c) Ordering the defendant to release and surrender TCT No. T-52886 in favor of plaintiff Casiana Catapang;
- (d) Ordering defendant to pay plaintiff Casiana Catapang the amount of P30,000.00 as and by way of moral damages and the amount of P20,000.00 as and by way of attorney's fees.

SO ORDERED.¹⁸

The RTC held that the Sales Contract entered into by petitioner Redentor and respondent Lipa Bank is valid and effective, and thus denied petitioner Redentor's prayer for the refund of the ₱200,000.00 downpayment paid to respondent Lipa Bank.¹⁹

As to the Promissory Note and Deed of Real Estate Mortgage, the RTC held them to be null and void for having been procured with fraud. The RTC centered on the inability of petitioner Casiana to comprehend the English language. Hence, the RTC ordered respondent Lipa Bank to release and surrender TCT No. T-52886 to petitioner Casiana.²⁰

Lastly, respondent Lipa Bank was ordered to pay petitioner Casiana the amount of ₱30,000.00 as moral damages and ₱20,000.00 as attorney's fees.²¹

Respondent Lipa Bank filed a Motion for Partial Reconsideration²² dated October 10, 2011, which was denied by the RTC in its Order²³ dated February 29, 2012.

Respondent Lipa Bank then appealed before the CA, and docketed therein as CA – G.R. CV No. 99885.

¹⁷ Id. at 158-170.

¹⁸ Id. at 170.

¹⁹ Id. at 165-167.

²⁰ Id. at 167-169.

²¹ Id. at 170.

²² Id. at 171-176-C.

²³ Records, p. 297.



The Ruling of the CA

In its assailed Decision,²⁴ the CA partially granted the appeal of respondent Lipa Bank. The dispositive portion of the assailed Decision reads:

WHEREFORE, the *Appeal* is **PARTIALLY GRANTED**. The *Decision* dated September 9, 2011 of the RTC, Branch 87, Rosario, Batangas in Civil Case No. 06-010 is **MODIFIED** to the effect that the Promissory Note dated June 30, 1999 and the Deed of Real Estate Mortgage dated August 6, 1999 signed by plaintiff-appellee Casiana Catapang are declared valid and effective. Accordingly, there is no need for Lipa Bank to release and surrender TCT No. T-52886 to plaintiff-appellee Casiana Catapang. Also, the awards of moral damages and attorney's fees in favor of plaintiff-appellee Casiana Catapang are deleted.

SO ORDERED.²⁵

In partially granting the appeal, the CA was not convinced that petitioner Casiana failed to comprehend and understand the circumstances surrounding and the meaning behind the documents she executed. The CA likewise held that the documents presented by respondent Lipa Bank, *i.e.*, Disbursement Voucher and Credit Ticket dated June 30, 1999, was sufficient proof that petitioner Casiana actually received the proceeds of the loan with respondent Lipa Bank. Lastly, the CA deleted the award for moral damages and attorney's fees in favor of petitioner Casiana.²⁶

Petitioners Redentor and Casiana filed their Motion for Reconsideration²⁷ dated November 17, 2017, which was denied by the CA in its assailed Resolution²⁸ dated July 10, 2018.

Hence, the instant Petition before the Court.

On February 28, 2019, respondent Lipa Bank filed its Comment/Opposition,²⁹ reiterating its position that no fraud attended the execution of the Promissory Note and Deed of Real Estate Mortgage.

On June 10, 2019, petitioners Redentor and Casiana filed their Reply.³⁰

²⁴ Supra note 2.

²⁵ *Rollo*, p. 48; emphasis and italics in the original.

²⁶ *Id.* at 41-48.

²⁷ *Id.* at 53-61.

²⁸ Supra note 3.

²⁹ *Rollo*, pp. 242-256.

³⁰ *Id.* at 265-277.

Issue

Stripped to its core, the critical issue to be resolved by the Court is whether the Promissory Note and Deed of Real Estate Mortgage entered into between petitioner Casiana and respondent Lipa Bank are valid and binding contracts.

The Court's Ruling

The Court finds the instant Petition impressed with merit.

The absence of a meeting of the minds makes a contract null and void.

A contract is a meeting of minds between two persons whereby one binds himself, with respect to the other, to give something or to render some service.³¹ There can be no contract unless all of the following requisites concur: (1) consent of the contracting parties; (2) object certain which is the subject matter of the contract; and (3) the cause of the obligation which is established.³² When one of the elements is wanting, no contract can be perfected.³³

Consent, in turn, is the acceptance by one of the offer made by the other. It is the meeting of the minds of the parties on the object and the cause which constitutes the contract. The area of agreement must extend to all points that the parties deem material or there is no consent at all.³⁴ As a contract is consensual in nature, it is perfected upon the concurrence of the offer and the acceptance. The offer must be certain and the acceptance must be absolute, unconditional and without variance of any sort from the proposal.³⁵

Hence, where the contracting parties do not agree as to the subject matter of the contract, consent is absent, making the contract null and void.

In *Go v. Intermediate Appellate Court (First Civil Cases Div.)*,³⁶ when the contracting parties were made to sign a compromise agreement not comprehending whatsoever that they were actually relinquishing their rights over their homestead, the Court held that “[i]nnocuous-looking documents [that] were foisted on the simple-minded homesteaders on the pretext that these were ‘formalities’”³⁷ were null and void as there was no meeting of the minds.

³¹ CIVIL CODE, Art. 1305.

³² CIVIL CODE, Art. 1318.

³³ *Sps. Limso v. Philippine National Bank, et al.*, 779 Phil. 287, 372 (2016); citation omitted.

³⁴ *Leonardo v. Court of Appeals*, 481 Phil. 520, 530 (2004); citation omitted.

³⁵ *Uy v. Hon. Evangelista*, 413 Phil. 403, 415 (2001); citation omitted.

³⁶ 262 Phil. 91 (1990).

³⁷ *Id.* at 97; citation omitted.



There was no meeting of the minds as to the Promissory Note and Deed of Real Estate Mortgage.

Applying the foregoing to the instant case, the contract of loan and its accessory contract of mortgage as contained in the Promissory Note and Deed of Real Estate Mortgage were entered into without the consent of petitioner Casiana and were absolutely simulated by respondent Lipa Bank, making the same void *ab initio*. The evidence revealed that when respondent Lipa Bank's representative asked petitioner Casiana to sign the aforesaid documents, he openly misrepresented the very substance, tenor, and purpose of these documents, taking advantage of petitioner Casiana's lack of education and failure to understand English.³⁸ This establishes the failure to agree as to the subject matter of the aforesaid documents rendering the Promissory Note and Deed of Real Estate Mortgage null and void.

Respondent Lipa Bank contends that petitioner Casiana freely, willfully, and knowingly borrowed ₱270,000.00 from respondent Lipa Bank, as evidenced by the Promissory Note dated June 30, 1999, which she signed on the same day. As well, respondent Lipa Bank insists that petitioner Casiana also freely, willingly and knowingly mortgaged the subject property to secure the aforesaid loan obligation, as evidenced by the Deed of Real Estate Mortgage dated August 6, 1999.

However, as already intimated, the evidence on record tells a vastly different story: Petitioner Casiana had no intention at all to borrow ₱270,000.00 or mortgage the subject property.

During trial, petitioner Casiana testified that she was only a Grade 6 graduate and not capable of understanding English. She testified, in Tagalog, that she was approached by petitioner Redentor about a loan procured by him with respondent Lipa Bank. According to her testimony, petitioner Redentor told her that he obtained a loan from respondent Lipa Bank in order to purchase the property previously owned by his parents, the Sps. Catapang, and that he needed to borrow petitioner Casiana's owner's duplicate copy of TCT No. T-52886 because he was advised by respondent Lipa Bank to borrow the owner's duplicate certificate of title and submit the same to the bank so that the loan would push through:

Q Do you know defendant Lipa Bank?

A Yes, sir.

Q Why do you know Lipa Bank?

A My nephew Redentor Catapang obtained a loan from that bank, sir.

³⁸ Rollo, p. 163.

Q How did you know that your nephew Redentor Catapang obtained a loan from the Lipa Bank?

A He told me, sir.

Q When did you come to know that he obtained a loan from the Lipa Bank?

A When he came to me, sir.

Q Why did he come to you?

A He told me that he was instructed by the bank to go to me to borrow the title, sir.

x x x x

Q What did you do with the title of the property?

A My nephew told me that the bank instructed him to get the title to security (*sic*) in the loan, sir.

Q What did he tell you?

A I asked him what he will do with the title, sir.

Q Did you give him the title?

A Yes, sir.³⁹

Petitioner Casiana reiterated the same testimony on cross-examination:

Q Did you ask Redentor why he is borrowing your title?

A Yes, ma'am, I ask (*sic*) him.

Q And what did Redentor tell you?

A He told me that the bank told him that the title can served (*sic*) as a guarantee to his loan to which (*sic*) seems to be foreclosed.

Q And you gave this title to him?

A Yes, ma'am. I gave it to Redentor because of his request.

x x x x

[Q] And you trusted Redentor Catapang with the title of the property?

[A] Yes, ma'am.

[Q] That he approached you and borrowed you (*sic*) a title in order, according to you is in order to guarantee his loan of Php200,000.00 at that time?

³⁹ TSN, May 20, 2008, pp. 10-12. Petitioner Casiana testified through a Court Interpreter.



[A] I do not know how much is the indebtedness to the bank but what he told me is that he has already a deposit in the amount of Php200,000.00 and he will use the property to secure another Php200,000.00 to make it Php400,000.00 as a downpayment to the bank.

[Q] Did he tell you what for is he going to make a downpayment of Php400,000.00?

[A] So that the property should not be foreclosed by the bank?⁴⁰

During petitioner Casiana's cross-examination, it became evident that she failed to fully comprehend and understand the reason behind lending her owner's duplicate TCT to petitioner Redentor. All she understood was that, in lending the title to petitioner Redentor, she would merely provide a "garantiya" as regards petitioner Redentor's loan with respondent Lipa Bank, and not a collateral. Petitioner Casiana did not really fully grasp the import of this "garantiya":

ATTY. BERNARDO

Madam witness, you kept mentioning that Redentor told you that this title will be used as guarantee for a loan. Did you understand what it meant by that your property will be used as a guarantee? Do you understand what a guarantee is?

x x x x

WITNESS

I asked him what he will do with the title and he told me that we will not secure a loan. It will be just a guarantee for a loan of Php200,000.00.

ATTY. BERNARDO

Did Redentor explain how your property will be used as a guarantee?

WITNESS

All that he said is that it will be used as a guarantee but it will not be utilized as collateral for a loan.

ATTY. BERNARDO

Aside from that, he did not explain how the property will be used as a guarantee[?]

WITNESS

None, ma'am.⁴¹

Petitioner Casiana's testimony is further corroborated by the testimony of Rosalinda Catapang, the mother of petitioner Redentor and former co-owner of the property sought to be purchased by the latter, who testified that it was everyone's understanding that petitioner Redentor obtained a loan from

⁴⁰ TSN, August 4, 2008, pp. 7, 14-15.

⁴¹ Id. at 13-14; emphasis, italics and underscoring supplied.

respondent Lipa Bank in order to pay the downpayment and that petitioner Casiana's owner's duplicate copy of TCT No. T-52886 was borrowed and used by petitioner Redentor merely to "guarantee" his loan amounting to ₱270,000.00.⁴²

It is clear from the foregoing that *petitioner Casiana had no intention whatsoever to borrow any money from respondent Lipa Bank*. It was simply her understanding that petitioner Redentor had already obtained a loan from respondent Lipa Bank and that she merely was aiding her nephew by providing a "*garantiya*" to the loan by way of lending her owner's duplicate certificate of title to petitioner Redentor so that the latter could show it to respondent Lipa Bank. It was also clear to her that giving the title as "*garantiya*" was different from, and did not mean that it would be used as collateral for petitioner Redentor's loan. This, to the Court, shows that there was no meeting of the minds as to the subject matter of the supposed contracts.

Petitioner Casiana also testified that a week after she lent the owner's duplicate copy of TCT No. T-52886 to petitioner Redentor, respondent Lipa Bank's representative, Mr. Nestor Alayon (Alayon), went to her residence and asked her to sign documents that she testified she had failed to read or understand. She signed the documents on the basis of Alayon's representations that they merely ensured that there will be a "*garantiya sa utang*." Completely contrary to her understanding of what "*garantiya*" meant, she signed the documents:

Q After the title or the original torrens title registered in your name and that of your sister Gregoria [Catapang] was handed by you to your nephew Redentor Catapang, what [happened next]?

A A week after, [a] representative of the bank named Nestor Alayon went to our place, sir.

Q In what place did he go?

A In my house in Mayuro, Rosario, Batangas, sir.

Q When he arrived thereat, what did he do?

A He has with him a document for signing, sir.

COURT

Q Did he give to you the documents or it was only shown to you?

A It was only shown to me, Your Honor.

ATTY. MARQUEZ

Q What is your highest educational attainment?

⁴² Rollo, p. 161.



- A **Grade VI, sir.**
- Q **Do you know the nature or the kind of the document which are required of you by Nestor Alayon to be signed?**
- A **I asked Nestor Alayon, sir.**
- Q **What did you ask of him?**
- A **I asked him what is that document that you are requiring me to sign?**
- Q **What was his answer?**
- A **You sign this and it will serve as mere guarantee for a loan (garantiya sa utang).**
- Q **Did you ask him further about what is this “garantiya”?**
- A **It is a guarantee for the loan of my nephew in the amount of Two Hundred Thousand (Php 200,000.00) Pesos, sir.**
- Q **And then, when this matter was explained to you, what did you do?**
- A **I affixed my signature, sir.**
- Q **Did you read what you have signed?**
- A **It was written in English, sir.**
- Q **What would you like to impress this Honorable Court that because it was written in English, do you know how to read English?**
- A **I can read English but I cannot understand, sir.**
- Q **Did you read those documents required of you to be signed?**
- A **I did not read it anymore, sir.⁴³**

Petitioner Casiana reiterated her testimony on cross-examination, stressing that she understood the documents she signed as mere “*garantiya*” of petitioner Redentor’s loan and that she did not read or understand these documents as they were in English:

ATTY. BERNARDO

Madam witness, you mentioned one Mr. Nelson Alayon, a Lipa Bank representative, go to your house to have document (*sic*) signed. Do you recall what these documents are?

WITNESS

Yes, ma’am. What I know is, it is a guarantee.

⁴³ TSN, May 20, 2008, pp. 12-15; emphasis supplied.



ATTY. BERNARDO

Did you look at the documents that he gave to you for signing?

WITNESS

I saw it but considering I do not know English, I did not read it nor I did not understand it. All that he say is (*sic*) that it is merely a guarantee.⁴⁴

With her understanding of what “*garantiya*” meant, petitioner Casiana testified that she had absolutely no intention whatsoever to obtain any loan from respondent Lipa Bank:

WITNESS

I do not know about the transaction [referring to her loan in the amount of ₱270,000.00 with respondent Lipa Bank] **and I have no loan whatsoever.**⁴⁵

Notably, petitioner Casiana’s clear misunderstanding of the Promissory Note and its adjunct Deed of Real Estate Mortgage is corroborated, substantiated, and confirmed by *the testimony of Alayon himself, the bank collector of respondent Lipa Bank, who testified as a witness for petitioner Casiana.*

Alayon testified that he was instructed by Mr. Damian, the head of the loans division of respondent Lipa Bank, to proceed to the residence of petitioner Casiana to make her sign the Promissory Note and the Deed of Real Estate Mortgage. According to Alayon, when he presented these documents to petitioner Casiana, the latter did not know why she was being asked to sign the documents. Thus, petitioner Casiana asked Alayon what these documents were and the purpose of signing the same.

Following the direct instructions of Mr. Damian, Alayon told petitioner Casiana that these documents were for the purpose of a mere “*garantiya*”:⁴⁶

Q: So when you handed the envelope to her, did Casiana pulled (*sic*) the documents herself?

A: Yes, ma’am.

Q: Did she ask you what the envelope contained?

A: Yes, ma’am.

Q: And what did you tell her?

A: I told her that it was being sent by Mr. Damian for her to sign.

Q: Did you see Casiana look or try to read all the documents that was handed to her?

⁴⁴ TSN, August 4, 2008, pp. 19-20; emphasis supplied.

⁴⁵ Id. at 19; emphasis supplied.

⁴⁶ *Rollo*, p. 163.

A: She did not look at it, she only asked me what is that (sic) documents were?

Q: After she asked you what the documents where (sic), did she ask any further questions?

A: I told her that it was sent to by Mr. Damian for her signature for guarantee.

Q: So, I (sic) she knows that it was for a guarantee?

A: It was instructed to me by Mr. Damian.⁴⁷

Hence, believing that Alayon's representations were in line with her understanding of what "*garantiya*" meant, she signed the Promissory Note and Deed of Real Estate Mortgage *not comprehending* that these documents showed that it was she who was the borrower of ₱270,000.00 and that the subject property was to be the collateral for that loan.

The foregoing testimony of Alayon corroborates the testimony of petitioner Casiana and, more importantly, completely belies the very terms of the Promissory Note which, on its face, states that the purpose of the loan is for the "[p]urchase of machineries and preventive maintenance of rice mill equipments and [motor] vehicle repair shop."⁴⁸ Indeed, as testified by petitioner Casiana, which was corroborated by Rosalinda Catapang, the former has no business. She is a plain housewife⁴⁹ and never engaged in the operation or management of a rice mill.⁵⁰

In fine, the Court finds that respondent Lipa Bank was not able to controvert the positive testimonies of petitioners Redentor and Casiana's witnesses, which clearly substantiate the fact that petitioner Casiana, being only a Grade 6 graduate, did not understand English and was unable to read and comprehend the tenor of the Promissory Note and Deed of Real Estate Mortgage which she signed — documents which were opposite to her understanding of why she lent to petitioner Redentor her owner's duplicate copy of the subject property.

As important, the very fact that respondent Lipa Bank took the posture that the Promissory Note and the Deed of Real Estate Mortgage were proof that it was petitioner Casiana herself who had borrowed money for a business that did not exist tells the Court that it unduly took advantage of petitioner Casiana's poor education.

⁴⁷ TSN, May 11, 2009, pp. 8-10; emphasis, italics and underscoring supplied.

⁴⁸ *Rollo*, p. 88-A.

⁴⁹ TSN, April 8, 2008, p. 30.

⁵⁰ TSN, May 20, 2008, p. 18. This was not sufficiently refuted by respondent Lipa Bank. According to Melo, respondent Lipa Bank's lone witness, his sole basis for finding that petitioner Casiana is supposedly not a mere housewife and that she is engaged in farming, is the bare fact that she signed the Promissory Note. TSN, February 17, 2010, p. 32.

This finding is not diminished whatsoever by the testimony of respondent Lipa Bank's Vice President Melo, whose testimony never refuted the testimony of Alayon. Moreover, Melo's testimony was purely *hearsay*.

On direct examination, Melo admitted that during the time of the subject transaction, he was not yet Vice President of respondent Lipa Bank and that he was the head of Human Resource Management.⁵¹ Melo also admitted that he was not fully aware as to petitioner Casiana's transactions with respondent Lipa Bank because "during that time I was not yet on that transaction, sir"⁵² and that "I cannot give you an information because I was not yet there when the loan was granted."⁵³

In this regard, the Court finds it highly erroneous that the CA took cognizance of two documents presented by Melo in his Judicial Affidavit, *i.e.*, the Disbursement Voucher and Credit Ticket dated June 30, 1999, in reaching the conclusion that petitioner Casiana received the proceeds of the loan. As these were signed together with the Promissory Note and Deed of Real Estate Mortgage on June 30, 1999, then they were, as already explained, likewise signed by petitioner Casiana without any understanding and comprehension of their tenor.

Moreover, as readily admitted by Melo under oath, he had no participation and personal knowledge whatsoever as to the execution of these documents. He was not a signatory to the documents. He did not witness their execution. Nor did he testify that he is familiar with the signatures contained therein as he was not privy to the transaction. Under Section 20, Rule 132 of the Revised Rules on Evidence, before a private document is admitted in evidence, it must be authenticated either by the person who executed it, the person before whom its execution was acknowledged, any person who was present and saw it executed, or who after its execution, saw it and recognized the signatures, or the person to whom the parties to the instruments had previously confessed execution thereof.⁵⁴ Therefore, with the Disbursement Voucher and Credit Ticket not having been authenticated by a competent witness, the documents are inadmissible. Hence, there is no evidence on record that proves that petitioner Casiana received any loan proceeds from respondent Lipa Bank.

Interestingly, while respondent Lipa Bank vigorously asserts that the loan transaction of petitioner Casiana is legitimate and that such transaction had nothing to do with petitioner Redentor and his family's quest to repurchase the Sps. Catapang's former property, in the same breath, it expressed in its pleadings that it was "Alejandro Catapang, through his son plaintiff Redentor Catapang, who had all the motivations to induce and influence his own sister plaintiff Casiana Catapang to again extend

⁵¹ TSN, February 17, 2010, p. 20.

⁵² *Id.* at 25.

⁵³ *Id.* at 33.

⁵⁴ *Cercado-Siga, et al. v. Cercado, Jr., et al.*, 755 Phil. 583, 593 (2015); citations omitted.



accommodation to him by allowing her interest in the subject property to be used as collateral security.”⁵⁵ This is an admission on the part of respondent Lipa Bank that petitioner Casiana was *induced and influenced* in executing the Promissory Note and Deed of Real Estate Mortgage.

All in all, respondent Lipa Bank’s assertion that the loan obligation entered into by petitioner Casiana is above-board and that the latter received the proceeds of the loan has *no basis in evidence*.

Under Article 1332 of the Civil Code, respondent Lipa Bank has the burden of proving that the terms of the loan documents were fully explained to petitioner Casiana.

Article 1332 of the Civil Code states that when a contract is in a language not understood by one of the parties, and mistake or fraud is alleged, the person enforcing the contract has the burden of proving that the terms of the contract were fully explained to the contracting party:

ART. 1332. When one of the parties is unable to read, or if the contract is in a language not understood by him, and mistake or fraud is alleged, the person enforcing the contract must show that the terms thereof have been fully explained to the former.

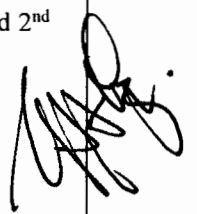
Article 1332 was intended for the protection of a party to a contract who is at a disadvantage due to his illiteracy, ignorance, mental weakness or other handicap. This article contemplates a situation wherein a contract has been entered into, but the consent of one of the parties is vitiated by mistake or fraud committed by the other contracting party.⁵⁶

As explained by recognized Civil Law Commentator, former CA Justice Eduardo P. Caguioa, Article 1332, which is a new provision taken from American law, is justified by the Code Commission by the fact that in this country, there is a fairly large number of illiterates and documents are usually drawn up in English or Spanish. The above article shifts the burden of proof from the party alleging the mistake to the party enforcing the contract. It also alters the rule that a party is presumed to know the meaning of a document which he signed. Hence, if one of the parties is unable to read or if the contract is in a language not understood by him, and he alleges fraud or mistake, the burden of proving that the terms of the contract have been fully explained to the former is shifted to the person enforcing the contract. If this burden is not satisfied, the presumption of mistake or fraud stands un rebutted.⁵⁷

⁵⁵ Rollo, p. 103.

⁵⁶ *Hemedes v. Court of Appeals*, 374 Phil. 692, 716 (1999); citations omitted.

⁵⁷ Eduardo P. Caguioa, *Comments and Cases On Civil Law, Civil Code of The Philippines*, Revised 2nd ed., 1983, Vol. IV, pp. 526-527.



In *Lim v. Court of Appeals*,⁵⁸ a Deed of Confirmation of Extrajudicial Partition, which was written in English, was entered into by an elderly woman who does not understand English. The Court found that since it was proven that the said woman was unable to understand English, the burden was on the other contracting party to prove that the content of the said Deed was explained to the elderly woman. Because such burden was not met, the Deed was annulled.⁵⁹

Applying the foregoing to the instant case, the Court concurs with the factual finding of the RTC that petitioner Casiana is not capable of understanding English and that she did not understand the words in the Promissory Note and Deed of Real Estate Mortgage as they were in the English language. The Court finds the RTC's factual finding supported by the evidence on record.

As testified by petitioner Casiana on direct examination, her highest educational attainment was Grade 6⁶⁰ and that she does not understand English.⁶¹ On cross-examination, petitioner Casiana reiterated that she cannot comprehend the English language.⁶² Petitioner Casiana's testimony on her failure to understand English and low educational attainment is corroborated by Rosalinda Catapang, who testified that petitioner Casiana is only an elementary graduate.⁶³

In fact, during Casiana's cross-examination, the RTC itself observed the witness and unequivocally stated on record that "[s]he does not know English, whether she is college graduate or not, she does not know english."⁶⁴

It must be stressed that, as a general rule, the evaluation of testimonial evidence and the condition of the witnesses by the trial courts is accorded great respect precisely because it is in the best position to observe first-hand the demeanor of the witnesses, a matter which is important in determining whether what has been testified to may be taken to be the truth or falsehood.⁶⁵

In disregarding the RTC's factual finding, the CA reasoned that because petitioner Casiana had previously mortgaged her rights and interests over the subject property in favor of her brother, Alejandro Catapang, it shows that petitioner Casiana was able to comprehend the subject loan documents. The CA's argument is bereft of logic. The fact that petitioner Casiana was able to previously mortgage the subject property does not support in any way the CA's belief that she understands the English language or that she understood "*garantiya*" correctly. It is a *non sequitur* argument.

⁵⁸ 299 Phil. 657 (1994).

⁵⁹ Id. at 666.

⁶⁰ TSN, May 20, 2008, p. 13.

⁶¹ Id. at 14.

⁶² TSN, August 4, 2008, p. 22.

⁶³ TSN, April 8, 2008, p. 29.

⁶⁴ TSN, August 4, 2008, p. 22; underscoring supplied.

⁶⁵ *People v. Ramos*, 386 Phil. 662, 667 (2000).



In believing that petitioner Casiana understood English and was able to comprehend the tenor of the Deed of Real Estate Mortgage, the CA relied heavily on the notarization of the Deed of Real Estate Mortgage. Upon careful examination of the Deed of Real Estate Mortgage, however, it is clear that it was irregularly notarized.

It is not disputed that the Deed of Real Estate Mortgage, which was dated and supposedly notarized on August 6, 1999, was actually signed and executed by petitioner Casiana on June 30, 1999 at her residence. Alayon, respondent Lipa Bank's own employee, unequivocally testified that he went alone to the residence of petitioner Casiana on June 30, 1999. Aside from petitioner Casiana's husband, there were no other persons present. There were no witnesses to the signing of the documents, contrary to what is stated in the Deed of Real Estate Mortgage.⁶⁶

As admitted by Alayon during trial, when petitioner Casiana signed the Deed of Real Estate Mortgage, there was no notary public who witnessed the same:

Q By the way, did you have any companion when you went to the house of Casiana Catapang?

A None, sir.

Q Did you have with you a Notary Public when you went to the house of Casiana Catapang?

A None, sir.⁶⁷

Therefore, contrary to what was stated in the jurat of the notarization portion of the Deed of Real Estate Mortgage, petitioner Casiana did not appear in person before the notary public, did not sign the document in the presence of the notary public, and did not take an oath or affirmation before the notary public. Further, as seen in the jurat of the Deed of Real Estate Mortgage itself, there was no competent evidence of petitioner Casiana's identity that was provided and indicated on the document. It is clear to the Court that the said document was first signed by petitioner Casiana on June 30, 1999 and was belatedly notarized by the notary public without the affiant's presence on August 6, 1999. Hence, contrary to the assertion of the CA, the Deed of Real Estate Mortgage does not enjoy any presumption of regularity. Indisputably, the notarization of the Deed of Real Estate Mortgage was a sham.

In plain terms, since it was established that the Promissory Note and Deed of Real Estate Mortgage were in a language not understood by petitioner Casiana, in accordance with Article 1332 of the Civil Code, the burden shifted to respondent Lipa Bank to prove that it was able to fully explain the terms of

⁶⁶ TSN, May 11, 2009, p. 27.

⁶⁷ TSN, February 10, 2009, p. 12.

the documents to petitioner Casiana, and that the loan documents were not executed by mistake or through fraud.

The evidence on record shows that respondent Lipa Bank was not able to satisfy this burden. As established by the testimony of respondent Lipa Bank's own representative, Alayon, the terms of the Promissory Note and Deed of Real Estate Mortgage were not explained whatsoever to petitioner Casiana. Worse, respondent Lipa Bank misrepresented to petitioner Casiana that she was signing documents that merely provided for a "*garantiya*" of petitioner Redentor's loan.

Epilogue: The Fiduciary Duty of Banking Institutions.

In sum, the Court nullifies the Promissory Note and Deed of Real Estate Mortgage for lacking the essential requisite of consent. Hence, the reinstatement of the RTC's Decision dated September 9, 2011 is warranted. Aside from restoring the RTC's award of moral damages and attorney's fees, the Court likewise awards *exemplary damages* in favor of petitioner Casiana.

The banking industry is one impressed with great public interest as it affects economies and plays a significant role in businesses and commerce. Hence, "[t]he public reposes its faith and confidence upon banks, such that 'even the humble wage-earner has not hesitated to entrust his life's savings to the bank of his choice, knowing that they will be safe in its custody and will even earn some interest for him.'"⁶⁸ This is the reason why the fiduciary nature of the banks' functions is well-entrenched in jurisprudence.

"The law allows the grant of exemplary damages by way of example for the public good. The public relies on the banks' sworn profession of diligence and meticulousness in giving irreproachable service. The level of meticulousness must be maintained at all times by the banking sector."⁶⁹

In the instant case, respondent Lipa Bank took advantage of the faith and trust bestowed upon it as a banking institution and acted without the level of professionalism, meticulousness, good faith, trustworthiness, and fidelity to the public expected from every banking institution. Therefore, in light of recent jurisprudence,⁷⁰ the Court finds that exemplary and moral damages in the amount of ₱100,000.00 each should also be awarded in favor of petitioner Casiana.

All monetary awards shall then earn interest at the rate of 6% *per annum* from finality of this Decision until full satisfaction in accordance with the

⁶⁸ *Philippine National Bank v. Santos, et al.*, 749 Phil. 948, 961 (2014); citation omitted.

⁶⁹ *Prudential Bank v. Court of Appeals*, 384 Phil. 817, 826 (2000); citation omitted.

⁷⁰ *Philippine National Bank v. Santos, et al.*, *supra*.



Court's pronouncement in *Lara's Gifts & Decors, Inc. v. Midtown Industrial Sales, Inc.*⁷¹

WHEREFORE, the instant Petition is **GRANTED**. The assailed Decision dated October 25, 2017 and Resolution dated July 10, 2018 rendered by the Court of Appeals in CA – G.R. CV No. 99885 are **REVERSED AND SET ASIDE**.

The Decision dated September 9, 2011 of the Regional Trial Court of Rosario, Batangas, Branch 87, is hereby **REINSTATED WITH MODIFICATIONS**. The dispositive portion of the modified Decision reads as follows:

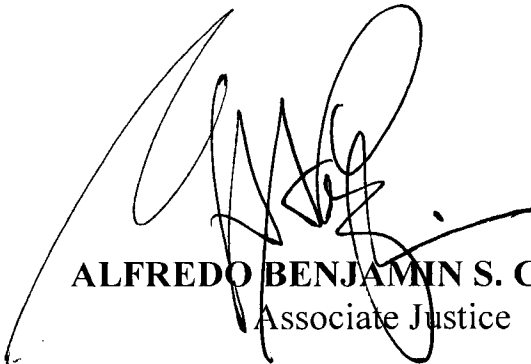
WHEREFORE, judgment is hereby rendered:

- (a) Declaring the Sales Contract entered into by plaintiff Redentor Catapang with defendant bank as valid and effective;
- (b) Declaring the Promissory Note and Deed of Real Estate Mortgage signed by plaintiff Casiana Catapang null and void and ineffective;
- (c) Ordering the defendant to release and surrender TCT No. T-52886 in favor of plaintiff Casiana Catapang;
- (d) Ordering defendant to pay plaintiff Casiana Catapang the amount of ₱100,000.00 as and by way of moral damages, the amount of ₱100,000.00 as and by way of exemplary damages, and the amount of ₱20,000.00 as and by way of attorney's fees.

All monetary awards shall then earn interest at the rate of 6% *per annum* from finality of the Decision until full satisfaction.

SO ORDERED.

SO ORDERED.



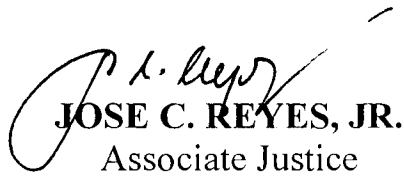
ALFREDO BENJAMIN S. CAGUIOA
Associate Justice

⁷¹ G.R. No. 225433, August 28, 2019.

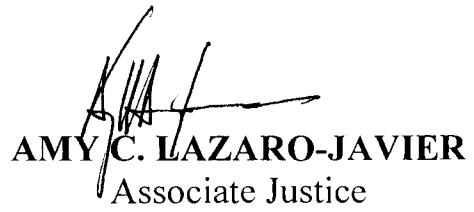
WE CONCUR:



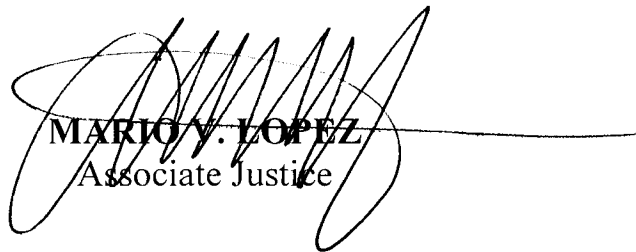
DIOSDADO M. PERALTA
Chief Justice
Chairperson



JOSE C. REYES, JR.
Associate Justice



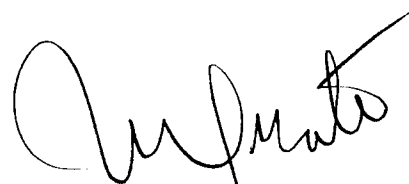
AMY C. LAZARO-JAVIER
Associate Justice



MARIO V. LOPEZ
Associate Justice

CERTIFICATION

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



DIOSDADO M. PERALTA
Chief Justice

