



Republic of the Philippines
Supreme Court
Manila

SUPREME COURT OF THE PHILIPPINES
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FIRST DIVISION

**SPOUSES FRANCIS N. CELONES
AND FELICISIMA CELONES,**

Petitioners,

G.R. No. 215691

Present:

BERSAMIN, J.,*
Acting Chairperson,
DEL CASTILLO,
JARDELEZA,
TIJAM, and
GESMUNDO, JJ.**

- versus -

**METROPOLITAN BANK AND
TRUST COMPANY AND ATTY.
CRISOLITO O. DIONIDO,**

Respondents.

Promulgated:

NOV 21 2018

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DECISION

TIJAM, J.:

Before Us is a petition for review on *certiorari*¹ filed by petitioners Spouses Francis N. Celones and Felicisima Celones (Spouses Celones), against respondents Metropolitan Bank and Trust Company (Metrobank) and Atty. Crisolito O. Dionido (Atty. Dionido), assailing the Decision² dated April 14, 2014 and the Resolution³ dated December 11, 2014 of the Court of Appeals (CA) in CA-G.R. CV No. 96236, reversing the Order⁴ dated September 1, 2010 of the Regional Trial Court (RTC) of Pasig City, Branch 154, declaring the Memorandum of Agreement⁵ (MOA) without force and effect and declaring that Spouses Celones were the ones who redeemed the mortgaged properties.

* Designated Acting Chairperson per Special Order No. 2606 dated October 10, 2018.

** Designated Additional Member per Special Order No. 2607 dated October 10, 2018.

¹ *Rollo*, pp. 9-54.

² Penned by Associate Justice Stephen C. Cruz, concurred in by Associate Justices Magdangal M. De Leon and Eduardo B. Peralta, Jr.; id. at 58-87.

³ Id. at 117-120.

⁴ Rendered by Judge Abraham B. Borreta; id. at 150-158.

⁵ Id. at 141-146.

Antecedent Facts

The Spouses Celones together with their company, Processing Partners and Packaging Corporation (PPPC), obtained various loans from Metrobank and for which they mortgaged various properties.⁶ The total obligation of Spouses Celones with Metrobank was ₱64,474,058.73.⁷

The Spouses Celones defaulted in paying their loan, as such, Metrobank foreclosed all the mortgaged properties. During the foreclosure sale, Metrobank was declared as the winning bidder. The certificates of sale were issued on July 2007. Prior to the expiration of the one year redemption period, Metrobank filed petitions for issuance of writs of possession before several courts to take possession of the foreclosed properties.⁸

Sometime in 2007, the spouses Celones offered to redeem the properties from Metrobank. The latter issued a Conditional Notice of Approval for Redemption⁹ (CNAR) dated December 13, 2007 stating that the offer of Spouses Celones to redeem the property in the amount of ₱55 Million has been approved to be paid on or before December 20, 2007.¹⁰ Pressed for time, Spouses Celones sought the help of banking and financing institutions who are willing to extend them a loan. Finally, they found Atty. Dionido who agreed to loan them the said amount.¹¹

Atty. Dionido then issued two (2) manager's check, one amounting to ₱35 Million and another amounting to ₱20 Million.¹²

In lieu of executing a loan agreement, Spouses Celones, PPPC, Metrobank and Atty. Dionido executed a MOA, wherein the parties agreed for the subrogation of Atty. Dionido to all the rights, interests of Metrobank over the loan obligation of Spouses Celones and the foreclosed properties.¹³

Upon receipt of the two manager's checks, Metrobank issued Payment Slips in favor of Spouses Celones.¹⁴ It likewise caused the dismissal of the petitions for issuance of writs of possession on the ground that Spouses Celones had already redeemed the properties.¹⁵

⁶ Id. at 58-59.

⁷ Id. at 60.

⁸ Id.

⁹ Id. at 121-122.

¹⁰ Id. at 121.

¹¹ Id. at 60-61.

¹² Id. at 61.

¹³ Id. at 141-145.

¹⁴ Id. at 63.

¹⁵ Id. at 123.

On the belief that they have redeemed the foreclosed properties, the Spouses Celones demanded from Metrobank the issuance of a Certificate of Redemption. However, the latter refused to issue the same on the ground that all its rights and interests over the foreclosed properties had been transferred to Atty. Dionido, as such, he should be the one to issue the said certificate.¹⁶

Meanwhile, Atty. Dionido sent several demand letters to Spouses Celones to vacate the foreclosed properties in view of the expiration of the redemption period without Spouses Celones redeeming the same.¹⁷

Aggrieved, Spouses Celones filed before the trial court a case for Declaratory Relief and Injunction to compel Metrobank to issue the certificates of redemption and to deliver to them the certificates of title over the foreclosed properties.¹⁸

On September 1, 2010, the RTC issued an Order¹⁹ in favor of Spouses Celones, thus:

WHEREFORE, judgment is hereby rendered declaring the questioned [MOA] without force and effect as the same has not been fully executed. The Court further declares the [Spouses Celones] to be the redemptioners of their foreclosed properties and directs defendant Metrobank to execute and deliver the corresponding certificates of redemption over the said properties and turn-over all the Transfer Certificates of Titles covering the same to [Spouses Celones] so that they could be registered in accordance with Section 29, Rule 39 of the Revised Rules of Court.

On the other second transaction, the Court hereby finds that the transaction between the [Spouses Celones] and defendant [Atty.] Dionido is one of a simple loan.

Lastly, the writ of preliminary injunction is hereby made permanent.

SO ORDERED.²⁰

Upon appeal to the CA, the latter reversed the RTC Order and rendered a Decision²¹ dated April 14, 2014, thus:

¹⁶ Id. at 64.

¹⁷ Id.

¹⁸ Id. at 64-65.

¹⁹ Id. at 150-158.

²⁰ Id. at 158.

²¹ Id. at 58-87.

WHEREFORE, premises considered, the instant appeal is hereby **GRANTED**. The Order dated September 1, 2010 issued by the [RTC] of Pasig City, Branch 154, in the case for Declaratory Relief and Injunction, docketed as SCA No. 3270-PSG is hereby **REVERSED and SET ASIDE**.

Accordingly, the [MOA] dated December 20, 2007 entered into by [Metrobank], [PPPC], [Spouses Celones] and [Atty. Dionido], is declared a Contract of Subrogation which entitles Atty. Dionido to be subrogated to the rights of Metrobank as a foreclosure buyer. And having failed to redeem the property within the redemption period, the [Spouses] Celones are hereby **DIRECTED** to immediately and voluntarily surrender the possession of the foreclosed properties to Atty. Dionido in accordance with the provisions of the said [MOA].

The [Spouses] Celones are **ORDERED** to pay Atty. Dionido the loan amount of Two Million Five Hundred Thousand (₱2,500,000.00) Pesos as payment for the loan they contracted from the latter with legal interest thereon at the rate of six (6%) percent *per annum* from the time of its availment, December 20, 2007, until fully paid.

Additionally, the [Spouses] Celones are ordered to pay Atty. Dionido moral damages in the amount of Five Hundred Thousand (₱500,000.00) Pesos, the amount of Three Hundred Thousand (₱300,000.00) Pesos, as exemplary damages, and Fifty Thousand (₱50,000.00) Pesos by way of attorney's fees. The [Spouses] Celones are likewise **ORDERED** to pay Metrobank the amount of Three Hundred Thousand (₱300,000.00) Pesos as exemplary damages and Fifty Thousand (₱50,000.00) Pesos as attorney's fees.

With Costs.

SO ORDERED.²²

The Motion for Reconsideration²³ filed by the spouses Celones was likewise denied by the CA in its Resolution²⁴ dated December 11, 2014.

Hence, this petition.

Issue

Whether or not Spouses Celones were able to redeem the foreclosed properties from Metrobank using the loan acquired from Atty. Dionido.

²² Id. at 85-86.

²³ Id. at 89-111.

²⁴ Id. at 117-120.

Petitioners' Arguments

Spouses Celones claimed that the transaction between them and Atty. Dionido was that of a loan.²⁵ Further, Metrobank's subsequent acts shows that spouses Celones has redeemed the property, such as the issuance of payment slips in the name of Spouses Celones and the filing of several motions to dismiss in the civil cases for issuance of a writ of possession pending before different courts due to the Spouses Celones' redemption of the foreclosed properties.

Respondents' Arguments

On the other hand, Metrobank and Atty. Dionido both argued that the Spouses Celones were not able to redeem the property because the CNAR has been novated by the MOA executed by the parties on December 20, 2007. Under the MOA, the ₱55 Million paid by Atty. Dionido to Metrobank was in consideration of the transfer and assignment of rights of Metrobank to Atty. Dionido over the foreclosed properties. Metrobank claimed that if there was indeed a redemption that occurred, it should be Atty. Dionido who should issue a Certificate of Redemption in view of the transfer and assignment of its rights to the latter.

Ruling of the Court

The petition is impressed with merit.

It is undisputed that the amount of ₱55 Million paid to Metrobank came from Atty. Dionido. The controversy lies as to what transaction occurred between spouses Celones and Atty. Dionido. Spouses Celones claimed that it was a loan transaction while Atty. Dionido claimed that it was in consideration of his subrogation to the rights and interests of Metrobank over the foreclosed properties.

Under the CNAR dated December 13, 2007, Metrobank approved the offer of Spouses Celones to redeem the property in the amount of ₱55 Million and that the same should be paid on or before December 20, 2007.²⁶

In order to finance the said amount, Spouses Celones sought the help of banking and financing institutions to pay off the said amount. Their search led them to Atty. Dionido who agreed to loan them the amount of ₱55 Million. On December 20, 2007, to finalize their transaction and with

²⁵ Id. at 35.

²⁶ Id. at 121-122.

the participation of Metrobank, the parties executed a MOA. Under the MOA, the following terms are stipulated:

1. DIONIDO shall pay Metrobank the amount of FIFTY-FIVE MILLION PESOS (P55,000,000.00) upon execution of this Agreement. The said amount shall be exclusive of all taxes, fees and charges, which shall likewise be exclusively assumed by DIONIDO that may be incurred arising from the execution and subsequent consummation of this Agreement, including friction costs and expenses associated with the redemption transaction; and all realty taxes, dues and other assessments on the Subject Properties from date of foreclosure. The payment shall be made in the form of Manager's Check in the name of METROBANK and shall be deposited via METROBANK's bills payment facility.

2. For and in consideration of the said payment by DIONIDO, METROBANK, PPC, and SPS. CELONES agree to fully and absolutely assign and transfer all of METROBANK's rights, interests, and authorities over the Assumed Obligation and the Subject Properties to DIONIDO, including those arising from the foreclosure proceedings and foreclosure sale made by METROBANK over the Subject Properties, and the authority to sign the Deed of Redemption over the Subject Properties. METROBANK agree to the full subrogation of its rights in favor of DIONIDO, and to free PPC and SPS. CELONES from the Assumed Obligation.²⁷

Metrobank and Atty. Dionido claimed that the MOA being of a later date, superseded and novated the CNAR. As such, the redemption agreed upon by Metrobank and Spouses Celones was no longer controlling.

Novation is a mode of extinguishing an obligation by changing its objects or principal obligations, by substituting a new debtor in place of the old one, or by subrogating a third person to the rights of the creditor.²⁸ In order that an obligation may be extinguished by another which substitute the same, it is imperative that it be so declared in unequivocal terms, or that the old and the new obligations be on every point incompatible with each other.²⁹ Thus, “[n]ovation must be stated in clear and unequivocal terms to extinguish an obligation. It cannot be presumed and may be implied only if the old and new contracts are incompatible on every point.”³⁰

²⁷ Id. at 128.

²⁸ Article 1291 of the New Civil Code.

Art. 1291. Obligations may be modified by:

(1) Changing their object or principal conditions;
(2) Substituting the person of the debtor;
(3) Subrogating a third person in the rights of the creditor.

²⁹ Article 1292 of the New Civil Code.

Art. 1292. In order that an obligation may be extinguished by another which substitute the same, it is imperative that it be so declared in unequivocal terms, or that the old and the new obligations be on every point incompatible with each other.

³⁰ *Arco Pulp and Paper Co., Inc., et al. v. Lim*, 737 Phil. 133, 137 (2014).



As held in the case of *Salazar v. J.Y. Brothers Marketing Corp.*:³¹

x x x Novation is done by the substitution or change of the obligation by a subsequent one which extinguishes the first, either by changing the object or principal conditions, or by substituting the person of the debtor, or by subrogating a third person in the rights of the creditor. Novation may:

[E]ither be extinctive or modificatory, much being dependent on the nature of the change and the intention of the parties. **Extinctive novation is never presumed; there must be an express intention to novate; in cases where it is implied, the acts of the parties must clearly demonstrate their intent to dissolve the old obligation as the moving consideration for the emergence of the new one. Implied novation necessitates that the incompatibility between the old and new obligation be total on every point such that the old obligation is completely superceded by the new one. The test of incompatibility is whether they can stand together, each one having an independent existence; if they cannot and are irreconcilable, the subsequent obligation would also extinguish the first.**

An extinctive novation would thus have the twin effects of, *first*, extinguishing an existing obligation and, *second*, creating a new one in its stead. This kind of novation presupposes a confluence of four essential requisites: (1) a previous valid obligation, (2) an agreement of all parties concerned to a new contract, (3) the extinguishment of the old obligation, and (4) the birth of a valid new obligation. Novation is merely modificatory where the change brought about by any subsequent agreement is merely incidental to the main obligation (*e.g.*, a change in interest rates or an extension of time to pay; in this instance, the new agreement will not have the effect of extinguishing the first but would merely supplement it or supplant some but not all of its provisions.)³² (Emphasis ours)

Examination of the MOA showed no express stipulation as to the novation or extinction of the CNAR. Thus, for implied novation to exist, it is necessary to determine whether the CNAR and the MOA are incompatible on every point such that they cannot be reconciled and stand together.

³¹ 648 Phil. 314 (2010).

³² *Id.* at 322-323, citing *Foundation Specialists, Inc. v. Betonval Ready Concrete, Inc., et al.*, 613 Phil. 303, 313-314 (2009).

Under the CNAR, it is provided that Metrobank approved the offer of Spouses Celones to redeem the property in the amount of ₱55 Million. While under the MOA, Metrobank assigned all its rights and interests to Atty. Dionido over the foreclosed properties including the issuance of a certificate of redemption.

After careful scrutiny of the records, we find that the CNAR only deals with the redemption right of Spouses Celones while the MOA deals with the assignment of credit of Metrobank to Atty. Dionido. As such, the CNAR and the MOA can be reconciled and can both stand together.

Under the MOA, Metrobank assigned all its rights and interests over the foreclosed properties to Atty. Dionido. "An assignment of credit has been defined as the process of transferring the right of the assignor to the assignee who would then have the right to proceed against the debtor."³³ Atty. Dionido being an assignee of Metrobank, he merely steps into the shoes of the assignor, Metrobank. Atty. Dionido can acquire no greater right than that pertaining to his assignor. Thus, when Atty. Dionido agreed to the assignment of Metrobank's rights and interests over the foreclosed properties under the MOA, he acquires exactly the rights and interests over the foreclosed properties as of the date of the signing of the MOA.

Unfortunately for Atty. Dionido, he merely acquired what right Metrobank has, as of the date of the signing of the MOA, which was the issuance of a Certificate of Redemption, because as of that date, the foreclosed properties have already been redeemed by Spouses Celones from Metrobank. The fact that Spouses Celones had already redeemed the foreclosed properties was evidenced by the fact that as soon as Metrobank was paid the redemption amount, the latter issued payment slips in the name of Spouses Celones. Further, after the payment of the ₱55 Million, Metrobank caused the dismissal of the civil cases it filed for issuance of writ of possession due to the fact that the foreclosed properties had already been redeemed by the Spouses Celones. Had the ₱55 Million been paid by Atty. Dionido to Metrobank as a consideration for the assignment of credit, the receipt should have been under the name of Atty. Dionido and not under the name of Spouses Celones.

Finding that the foreclosed properties had already been redeemed by Spouses Celones, the Certificate of Redemption should naturally be issued by the assignee, Atty. Dionido. To accept his contention that the redemption period of the foreclosed properties had already lapsed and that Spouses Celones has lost their right over the foreclosed properties is to go against the

³³ *Licaros v. Gatmaitan*, 414 Phil. 857, 866 (2001).



basic principle of assignment of credit that the assignee cannot acquire no greater right than the assignor.

Atty. Dionido however is not left without any remedy or recourse against Spouses Celones. Under Article 1236 of the Civil Code, it is provided that:

Art. 1236. The creditor is not bound to accept payment or performance by a third person who has no interest in the fulfillment of the obligation, unless there is a stipulation to the contrary.

Whoever pays for another may demand from the debtor what he has paid, except that if he paid without the knowledge or against the will of the debtor, he can recover only insofar as the payment has been beneficial to the debtor. (Emphasis ours)

Thus, Atty. Dionido has the right to demand payment of the amount of ₱55 Million from Spouses Celones since it is undisputed that such amount came from Atty. Dionido. It is unjust enrichment on the part of Spouses Celones to acquire the amount of ₱55 Million and not be required to pay the same. To save on the time and resources of this Court and because of the possibility that this case will once again reach this Court, although this case is not an action to recover a sum of money, we deem it proper to rule on the propriety of Atty. Dionido's right to recover the said sum from Spouses Celones. Thus, Spouses Celones should pay the amount of ₱55 Million to Atty. Dionido with legal interest counted from the date of finality of this Decision.

WHEREFORE, premises considered, the petition is **GRANTED**. The Decision dated April 14, 2014 and the Resolution dated December 11, 2014 of the Court of Appeals in CA-G.R. CV No. 96236 are hereby **REVERSED and SET ASIDE**.

Accordingly, a new one is entered **ORDERING** Atty. Crisolito O. Dionido to issue a Certificate of Redemption in favor of Spouses Francis N. Celones and Felicisima Celones.

The Spouses Francis N. Celones and Felicisima Celones are hereby **ORDERED** to pay the amount of ₱55 Million plus legal interest of six percent (6%) *per annum* to Atty. Crisolito O. Dionido counted from finality of this Decision until full payment thereof.

SO ORDERED.



NOEL GIMENEZ TIJAM
Associate Justice

WE CONCUR:


LUCAS P. BERSAMIN
Associate Justice
Acting Chairperson



MARIANO C. DEL CASTILLO
Associate Justice


FRANCIS H. JARDELEZA
Associate Justice


ALEXANDER G. GESMUNDO
Associate Justice

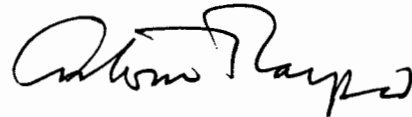
ATTESTATION

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.


LUCAS P. BERSAMIN
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

Senior Associate Justice

(Per Section 12, R.A. 296,

The Judiciary Act of 1948, as amended)