



Republic of the Philippines  
Supreme Court  
Manila

SECOND DIVISION

ELENA R. QUIAMBAO,  
Petitioner,

G.R. No. 238462

Present:

PERLAS-BERNABE, S.A.J.  
*Chairperson,*  
LAZARO-JAVIER,  
LOPEZ, M.,  
ROSARIO, and  
LOPEZ, J. Y.\*, JJ.

— versus —

CHINA BANKING  
CORPORATION,  
Respondent.

Promulgated:

MAY 12 2021

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DECISION

**M. LOPEZ, J.:**

A contract of adhesion is a veritable trap for the weaker party whom the courts are bound to protect from abuse and imposition. Hence, in case of doubt which will cause a great imbalance of rights, the contract shall be construed strictly against the party who prepared it.<sup>1</sup> This resolves the Petition for Review on *Certiorari*<sup>2</sup> under Rule 45 of the Rules of Court assailing the Court

\* Designated additional Member *per* Special Order No. 2822 dated April 7, 2021.

<sup>1</sup> *Asiitrust Development Bank v. Tuble*, 691 Phil. 732, 745 (2012).

<sup>2</sup> *Rollo*, pp. 10-52.

of Appeals’ (CA) Decision<sup>3</sup> dated September 11, 2017 and Resolution<sup>4</sup> dated March 21, 2018 in CA-G.R. CV No. 97888.

**ANTECEDENTS**

On April 3, 1990, Elena R. Quiambao (Elena) borrowed ₱1,400,000.00<sup>5</sup> from China Banking Corporation to increase the working capital of her general merchandising business.<sup>6</sup> On even date, Elena and her common-law husband and business partner Daniel S. Sy (Daniel) executed a Real Estate Mortgage<sup>7</sup> (REM) over a parcel of land registered under Transfer Certificate of Title (TCT) No. 227449-PR 21432 as security for the loan.<sup>8</sup> Later, the REM was amended several times increasing the loan to ₱1,770,000.00 on April 29, 1993,<sup>9</sup> ₱2,600,000.00 on April 28, 1995;<sup>10</sup> and ₱4,000,000.00 on April 29, 1997.<sup>11</sup> The amendments contained a “blanket mortgage clause” stating that the REM would secure the payment of obligations already incurred or which may be subsequently incurred.

On March 1, 2005, China Banking Corporation filed a petition for foreclosure of the REM with the Regional Trial Court (RTC) alleging that Elena and Daniel obtained ₱5,000,000.00 succeeding loan accommodations covered by eight promissory notes (PNs),<sup>12</sup> thus:

<sup>3</sup> *Id.* at 55-68; penned by Associate Justice Myra V. Garcia-Fernandez, with the concurrence of Associate Justices Romeo F. Barza and Rafael Antonio M. Santos.

<sup>4</sup> *Id.* at 69-70.

<sup>5</sup> *Id.* at 88-89.

<sup>6</sup> *Id.* at 55-56.

<sup>7</sup> *Id.* at 283-287.

<sup>8</sup> *Id.* at 90-92.

<sup>9</sup> *Id.* at 288-290. The blanket mortgage clause provided:

WHEREAS, to secure the payment of certain obligation already incurred or which may hereafter be incurred by the MORTGAGOR(S) and/or to the MORTGAGEE, up to the principal sum of ONE MILLION FOUR HUNDRED THOUSAND [PESOS] ONLY x x x (₱1,400,000.00), the MORTGAGOR(S) x x x mortgaged to the MORTGAGEE for the same amount the parcel(s) of land situated in Quezon City, x x x. *Id.* at 288. (Emphasis supplied.)

<sup>10</sup> *Id.* at 291-293. The blanket mortgage clause provided:

WHEREAS, to secure the payment of certain obligations already incurred or which may hereafter be incurred by the MORTGAGOR(S) and/or to the MORTGAGEE, up to the principal sum of ONE MILLION SEVEN HUNDRED [THOUSAND] PESOS ONLY x x x (₱1,770,00.00), the MORTGAGOR(S) x x x mortgaged to the MORTGAGEE for the same amount the parcel(s) of land situated in Quezon City, x x x. *Id.* at 291. (Emphasis supplied.)

<sup>11</sup> *Id.* at 294-296. The blanket mortgage clause provided:

WHEREAS, to secure the payment of certain obligations already incurred or which may hereafter be incurred by the MORTGAGOR(S) and/or to the MORTGAGEE, up to the principal sum of TWO MILLION SIX HUNDRED THOUSAND PESOS ONLY x x x (₱2,600,000.00), the MORTGAGOR(S) x x x mortgaged to the MORTGAGEE for the same amount the parcel(s) of land situated in Quezon City, x x x.

x x x x

WHEREAS, upon application of the MORTGAGORS(S) and/or the MORTGAGEE has agreed to extend to the MORTGAGOR(S) and/or --- increased credit facilities up to the principal sum of FOUR MILLION PESOS ONLY x x x (₱4,000,000.00), Philippine Currency, only[.] *Id.* at 294. (Emphasis supplied.)

<sup>12</sup> *Id.* at 297-304; and 305-308.

Promissory Note No.	Dated of Execution	Description
1. PN No. 001071438686 for ₱500,000.00	March 19, 2004	Renewal of the initial PN No. T-134040-6 dated June 16, 2000, for ₱500,000.00
2. PN No. 001071438693 for ₱1, 000,000.00	March 19, 2004	Renewal of the initial PN No. S-136992-6 dated July 24, 2001, for ₱1,000,000.00
3. PN No. 001071438723 for ₱500,000.00	March 19, 2004	Renewal of the initial PN No. S-137764-4 dated October 30, 2001, for ₱500,000.00
4. PN No. 001071438730 for ₱1,000,000.00	March 19, 2004	Renewal of the initial PN No. S-138142-1 dated December 20, 2001, for ₱1,000,000.00
5. PN No. 001071445042 for ₱400,000.00	June 16, 2004	Renewal of the initial PN No. S-141161-2 dated March 12, 2003, for ₱400,000.00
6. PN No. 001071445035 for ₱600,000.00	June 16, 2004	Renewal of the initial PN No. S-137041-4 dated July 30, 2001, for ₱600,000.00
7. PN No. 001071445011 for ₱500,000.00	June 16, 2004	Renewal of the initial PN No. S-137526-6 dated September 28, 2001, for ₱500,000.00
8. PN No. 001071445004 for ₱500,000.00	June 16, 2004	Renewal of the initial PN No. S-136971-1 dated July 20, 2001, for ₱500,000.00

In due course, the RTC issued a notice of extra-judicial sale scheduled on May 5, 2005.<sup>13</sup> The notice was published in a newspaper of general circulation<sup>14</sup> and posted in public places. At the public auction sale, the mortgaged property was sold to China Banking Corporation for the amount of ₱5,254,708.00. On May 6, 2005, the Certificate of Sale was issued to China Banking Corporation.<sup>15</sup> However, Elena and Daniel failed to redeem the property. Thus, the title was consolidated in the name of China Banking Corporation.<sup>16</sup> Accordingly, TCT No. 227449-PR 21432<sup>17</sup> in the name of Elena was cancelled and TCT No. N-307380<sup>18</sup> was issued in the name of China Banking Corporation.

<sup>13</sup> *Id.* at 309.

<sup>14</sup> *Id.* at 310-313.

<sup>15</sup> *Id.* at 315

<sup>16</sup> *Id.* at 322-323.

<sup>17</sup> *Id.* at 316-321.

<sup>18</sup> *Id.* at 324-328.

Thereafter, Elena filed against China Banking Corporation a petition to annul the mortgage and the extra-judicial foreclosure proceedings with prayer for injunctive relief before the RTC.<sup>19</sup> Elena argued that the REM only covered the loan secured on April 3, 1990, and its amendments but not her succeeding loans for ₱5,000,000.00.<sup>20</sup> In contrast, China Banking Corporation maintained that Elena's loan on April 3, 1990, was extended and renewed up to March 2004. Yet, Elena merely paid the interests but not the principal.<sup>21</sup>

At the trial, Elena testified that she was made to sign blank documents and blank PNs when she transacted with China Banking Corporation. The last mortgage document that she signed was on April 29, 1997. On the other hand, China Banking Corporation's loan assistant testified that PN No. 001071438693 executed on March 19, 2004 was not subject of the REM.<sup>22</sup>

On February 22, 2011, the RTC granted the petition and ruled that the eight PNs executed from March 19, 2004 to June 16, 2004 cannot be the basis for the foreclosure proceedings since one PN was clean or unsecured,<sup>23</sup> thus:

WHEREFORE, premises considered, judgment is hereby rendered in favor of the petitioner and against the respondents [*sic*]. The Amendment to the Real Estate Mortgage dated April 29, 1997 is declared null and void and the Extra-judicial foreclosure sale executed on May 5, 2005 is likewise declared null and void.

X X X X

SO ORDERED.<sup>24</sup>

On September 11, 2017, the CA reversed the RTC's findings and held that the REM was intended to secure all succeeding obligations of Elena in view of the blanket mortgage clause.<sup>25</sup> The CA noted that Elena and Daniel were capable of understanding the legal effects of contracts given their business experience, thus:

[Elena] and [Daniel's] lengthy actual experience and dealings in running their complex money[-]changing business and various other businesses,

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<sup>19</sup> *Id.* at 75-86.

<sup>20</sup> *Id.* at 83.

<sup>21</sup> *Id.*, pp. 134-135.

<sup>22</sup> *Id.* at 137.


<sup>23</sup> *Id.* at 134-140; penned by Presiding Judge Tita Marilyn Payoyo-Villordon.

<sup>24</sup> *Id.* at 140.

<sup>25</sup> *Supra* note 3. The CA Decision, disposed as follows:

WHEREFORE, the appeal is **GRANTED**. The decision of the [RTC] x x x in Civil Case No. Q-05-55289 dated February 22, 2011 is **REVERSED and SET ASIDE**. The petition for annulment of mortgage and extrajudicial foreclosure sale is dismissed.

SO ORDERED. *Supra* at 67.



more than equipped them with the business acumen that earned them millions. [Elena] and [Daniel] have long been engaged in business even prior to 1990. The latter affirmed that he managed their general merchandising business continuously up to the time he testified on June 28, 2006. The contracting parties, being of age and businessmen of experience, were presumed to have acted with due care and to have signed the contracts with full knowledge of their import.<sup>26</sup> (Citation omitted.)

Hence, this recourse. Elena maintains that she and Daniel signed the eight PNs in blank or without the material particulars. They thought that these are character loans without any renewal of mortgage. Lastly, Elena only finished high school while Daniel reached only grade two. They both have limited educational attainment which prevented them from discerning the effects of the transactions.<sup>27</sup> Meantime, China Banking Corporation advised Elena to remove her personal belongings from the foreclosed property, otherwise it will be forced to dispose them. Aggrieved, Elena moved to hold in abeyance the hauling off, and disposal of her personal properties.

## RULING

The petition is meritorious.

Elena raises a question regarding the appreciation of evidence which is one of fact, and is beyond the ambit of this Court's jurisdiction in a petition for review on *certiorari*. It is not this Court's task to go over the proofs presented below to ascertain if they were weighed correctly.<sup>28</sup> However, this rule of limited jurisdiction admits of exceptions and one of them is when the factual findings of the CA and the RTC are contradictory.<sup>29</sup> In this case, the RTC concluded that the eight promissory notes from March 19, 2004 to June 16, 2004 cannot be the bases for foreclosure proceedings while the CA ruled that the REM validly secured these succeeding loan obligations. Considering these conflicting findings warranting the examination of evidence, this Court will entertain the factual issues raised in the petition.

In a contract of adhesion, one imposes a ready-made contract to the other whose sole participation is either to accept or reject the agreement.<sup>30</sup> The parties do not bargain on equal footing in the execution of this kind of contract

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<sup>26</sup> *Supra* note 2, at 61.

<sup>27</sup> *Supra* note 2, at 19.

<sup>28</sup> *Gatan v. Vinarao*, 820 Phil. 257, 266 (2017); *Heirs of Teresita Villanueva v. Heirs of Petronila Syquia Mendoza*, 810 Phil. 172, 178 (2017); and *Bacsasar v. Civil Service Commission*, 596 Phil. 858, 867 (2009).

<sup>29</sup> *Office of the Ombudsman v. De Villa*, 760 Phil. 937, 949-950 (2015); *Miro v. Vda. de Erederos*, 721 Phil. 772, 787 (2013); *Office of the Ombudsman v. Dechavez*, 721 Phil. 124, 129-130 (2013); and *Medina v. Mayor Asistio, Jr.*, 269 Phil. 225, 232 (1990).

<sup>30</sup> *Prudential Bank v. Alviar*, 502 Phil. 595, 610 (2005).

given that the debtor is limited “*to take it or leave it*” option<sup>31</sup> and there is no room for negotiation.<sup>32</sup> However, such contract is not entirely prohibited. The one adhering is free to give his consent inasmuch as he is also free to reject it completely.<sup>33</sup> Inarguably, the amendments to the REM are contracts of adhesion. It was China Banking Corporation which drafted and prepared the standard forms on which Elena and Daniel merely affixed their signatures. At the trial, it was established that Elena and Daniel signed the amendments to the REM in blank. They presented *pro forma* blank documents that China Banking Corporation is giving to all borrowers for signature. Corollarily, any ambiguity in the provisions of these documents must be interpreted against China Banking Corporation.

Notably, there is a controversy on whether the “*blanket mortgage clause*” in the latest amendment to the REM dated April 29, 1997 covers the ₱5,000,000.00 succeeding loans under the eight PNs for which the mortgage was foreclosed. We stress that a “*blanket mortgage clause*” or “*dragnet clause*” subsumes all debts of past or future origins<sup>34</sup> and makes additional funds available to a borrower without the need to execute separate security documents, thus, saving time, costs, and other resources.<sup>35</sup> Jurisprudence recognizes the validity of this clause<sup>36</sup> but its terms must still be judiciously examined.<sup>37</sup>

In *Paradigm Development Corporation of the Phils. v. Bank of the Philippine Islands*,<sup>38</sup> this Court held that while a REM may exceptionally secure future loans or advancements, these future debts must be specifically described or must come fairly within the terms of the mortgage contract. A mortgage containing a dragnet clause will not be extended to cover future advances, unless the document evidencing the subsequent advance refers to the mortgage as providing security therefor, or unless there are clear and supportive evidence to the contrary. In that case, the foreclosure proceedings were declared void because there is uncertainty on whether the promissory notes were secured or not. It was not shown that the PNs are within the terms of the limited liability of the debtor, thus:

Nonetheless, the parties do not dispute that what the REMs secured were only Sengkon's availments under the Credit Line and not all of Sengkon's availments under other sub-facilities which are also secured by other collaterals. Since the liability of PDCP's properties was not unqualified, the

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<sup>31</sup> *Phil. National Bank v. The Hon. Court of Appeals*, G.R. No. 88880, April 30, 1991, citing *Qua [Chee Gan] v. Law Union & Rock Insurance Co., [Ltd., G.R. No. L-4611, December 17, 1955]*.

<sup>32</sup> *RCPI v. Verchez*, 516 Phil. 725, 742 (2006).

<sup>33</sup> *Norton Resources and Dev't. Corp. v. All Asia Bank Corp.*, 620 Phil. 381, 392 (2009).

<sup>34</sup> *Philippine Bank of Communications v. CA*, 323 Phil. 297, 312 (1996).

<sup>35</sup> *Prudential Bank v. Alviar*, *supra* note 30, at 606.

<sup>36</sup> *Mojica v. Hon. Court of Appeals*, G.R. No. 94247, September 11, 1991.

<sup>37</sup> *Philippine Bank of Communications v. CA*, *supra* note 34.

<sup>38</sup> 810 Phil. 539 (2017).

PNs, used as basis of the Petition for Extrajudicial Foreclosure of Mortgage **should sufficiently indicate that it is within the terms of PDCP's limited liability**. In this case, the PNs failed to make any reference to PDCP's availments, if any, under its Credit Line. In fact, it did not even mention Sengkon's securities under the Credit Line. Notably, the Disclosure Statements, which were "certified correct" by FEBTC's authorized representative, Ma. Luisa C. Ellescas, and which accompanied the PNs, **failed to disclose whether the loan secured thereby was actually secured or not.**<sup>39</sup> (Emphases supplied and citation omitted.)

Here, the eight PNs likewise failed to allude to Elena and Daniel's liability under the latest amendment to the REM dated April 29, 1997. The PNs do not even make any reference to the REM as a security. Further, China Banking Corporation did not adduce any evidence proving that the REM and its amendments secured these obligations. Worse, China Banking Corporation's loan assistant categorically testified that one of the PNs was not subject of the REM. Hence, the doubt on whether the rest of the PNs are secured or not must be construed against China Banking Corporation or the party who prepared the contracts. The bank could have avoided the ambiguity had it exercised a little more care in drafting the instruments. Consequently, the latest amendment to the REM cannot be interpreted to cover the ₱5,000,000.00 succeeding loans under the eight PNs for which the mortgage was foreclosed. As such, the foreclosure proceedings are void. The bank cannot validly foreclose a mortgage based on non-payment of unsecured PNs.

Moreover, it is undisputed that Elena only finished high school while Daniel reached only grade two. They cannot be expected to understand all the technicalities and foresee the legal implications of the transactions despite their business experience. Differently stated, Elena and Daniel lacked the adeptness to fully comprehend the effects of the amendments to the REM. On the other hand, China Banking Corporation merely concluded that Elena and Daniel freely, voluntarily, and willingly entered into the amendments to the REM but did not prove, let alone allege, that it made an effort to explain to them and ensure that they indeed understand the stipulations in the contract. Hence, there is reason for the court to step in and protect the interest of the weaker party, thus:

**The peculiar nature of such contracts behooves the Court to closely scrutinize the factual milieu to which the provisions are intended to apply. Thus, just as consistently and unhesitatingly, but without categorically invalidating such contracts, the Court has construed obscurities and ambiguities in the restrictive provisions of contracts of adhesion strictly albeit not unreasonably against the drafter thereof when justified in light**

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<sup>39</sup> *Id.* at 561.



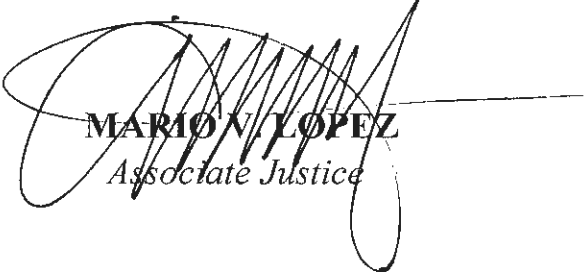
**of the operative facts and surrounding circumstances.**<sup>40</sup>  
(Emphases supplied and citation omitted.)

We reiterate that the validity or enforceability of the impugned contracts will have to be determined by the peculiar circumstances obtaining in each case and the situation of the parties concerned.<sup>41</sup> The stringent treatment towards a contract of adhesion is pursuant to the mandate that in all contractual, property, or other relations, when one of the parties is at a disadvantage on account of his moral dependence, ignorance, indigence, mental weakness, tender age or other handicap, the courts must be vigilant for his protection.<sup>42</sup>

Lastly, there is no need to rule on Elena's motion to hold in abeyance the removal of her personal belongings from the foreclosed property considering the favorable decision on the merits declaring void the amendments to the REM and the foreclosure proceedings.

**FOR THESE REASONS**, the petition is **GRANTED**. The Court of Appeals' Decision dated September 11, 2017 and Resolution<sup>43</sup> dated March 21, 2018 in CA-G.R. CV No. 97888 are **REVERSED**. The Regional Trial Court's Decision dated February 22, 2011 is **REINSTATED**.

**SO ORDERED.**



**MARION LOPEZ**  
*Associate Justice*

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<sup>40</sup> *Philippine Airlines, Inc. v. CA*, 325 Phil. 303, 314 (1996).

<sup>41</sup> *Cabanting v. BPI Family Savings Bank, Inc.*, 781 Phil. 164, 169 (2016).

<sup>42</sup> NEW CIVIL CODE, Art. 24.

<sup>43</sup> *Rollo*, pp. 68-69.



**WE CONCUR:**



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



**AMY C. LAZARO-JAVIER**  
*Associate Justice*



**RICARDO R. ROSARIO**  
*Associate Justice*



**JHOSEP Y. LOPEZ**  
*Associate Justice*

**ATTESTATION**

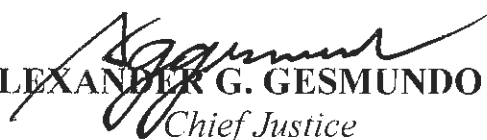
I attest that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.



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

**CERTIFICATION**

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



**ALEXANDER G. GESMUNDO**  
*Chief Justice*