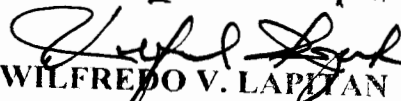




Republic of the Philippines  
**Supreme Court**  
 Baguio City

CERTIFIED TRUE COPY  
  
**WILFREDO V. LAPID**  
 Division Clerk of Court  
 Third Division

MAY 25 2018

**THIRD DIVISION**

**PHILIPPINE NATIONAL BANK,**  
 Petitioner,

**G.R. No. 199161**

Present:

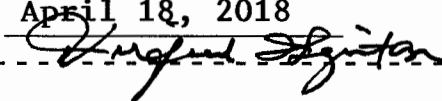
- versus -

VELASCO, JR., J.,  
*Chairperson,*  
 BERSAMIN,  
 LEONEN,  
 MARTIRES, and  
 GESMUNDO, JJ.

**JAMES T. CUA,**  
 Respondent.

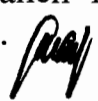
Promulgated:

April 18, 2018

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**DECISION**

**MARTIRES, J.:**

This petition for review on certiorari seeks to reverse and set aside the 26 October 2011 Decision<sup>1</sup> of the Court of Appeals (CA) in CA-G.R. CV No. 91386, which affirmed with modification the 28 November 2007 Decision<sup>2</sup> of the Regional Trial Court of Parañaque City, Branch 195, in Civil Case No. 05-0066, a case for sum of money with damages. 

<sup>1</sup> Rollo, pp. 8-15; penned by Associate Justice Japar B. Dimaampao, and concurred in by Associate Justice Stephen C. Cruz, and Associate Justice Ramon A. Cruz.

<sup>2</sup> Records, pp. 496-500; penned by Judge Aida Estrella Macapagal.

## THE FACTS

On 9 February 2005, herein respondent James T. Cua (*James*) filed a Complaint for Sum of Money with Damages<sup>3</sup> against herein petitioner Philippine National Bank (*PNB*), docketed as Civil Case No. CV-05-0066.

In the said complaint, James averred that since 1996, he and his brother, Antonio T. Cua (*Antonio*) maintained a US Dollar Savings Time Deposit with PNB, Sucat, Parañaque branch, evidenced by Certificate of Time Deposit (*CTD*) No. B-630178 issued on 9 December 2002 and which replaced CTD No. B-658788. CTD No. B-630178 has a face value of US\$50,860.53. James continued that he and Antonio had the practice of pre-signing loan application documents with PNB for the purpose of having a standby loan or ready money available anytime.

On 6 May 2004, James learned that he had a loan obligation with PNB which had allegedly become due and demandable. He maintained, however, that although he had pre-signed loan documents for pre-arranged loans with his time deposit as collateral, he had never availed of its proceeds. Sometime in September 2004, to see if his dollar time deposit was still existing and in order to revive his cash-strapped machine shop business, James requested from PNB the release of ₱500,000.00 to be secured by CTD No. B-630178. To his surprise, PNB rejected his loan application which refusal, he claims, caused damage and prejudice in terms of lost business opportunity and loss of income in the amount of more or less ₱1,000,000.00.

James inquired about the reason for the denial of his application. In a letter-reply dated 17 November 2004, PNB, through its vice president, explained that his dollar time deposit had been applied in payment to the loans he had with the bank, in accordance with the loan application and other documents he had executed.

Thereafter, James demanded the release of his entire dollar time deposit asserting that he never made use of any loan amount from his pre-arranged loan from the time he was issued CTD No. B-630178; and that it was only in September 2004 that he requested the release of the proceeds of his pre-arranged loan. After PNB failed to heed his demand, James filed a complaint for sum of money praying that PNB return to him the entire amount of the account.

In its Answer,<sup>4</sup> PNB admitted that James had applied for a loan. Contrary to his claim, however, he already made use of his hold-out facility with PNB and received the proceeds of his loan. PNB further denied James'

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<sup>3</sup> Id. at 2-8.

<sup>4</sup> Id. at 53-59.



allegation that he merely pre-signed the loan documents in order to have a stand-by loan. As its affirmative defense, PNB claimed that James, in fact, applied for and was extended four (4) separate loans including one on 14 February 2001 as evidenced by Promissory Note (PN) No. 0011628152240004 dated 14 February 2001. On 26 February 2002, the parties renewed the 14 February 2001 loan for which James executed PN No. 0011628152240006 dated 26 February 2002.

PNB further explained that James was considered as one of its valued clients such that when he came to the bank on said dates inquiring if he could use the hold-out loan facilities of the bank, the latter gladly obliged. Hence, immediately after James applied for the respective loans, the same were granted on the very same day, and the proceeds released in the form of manager's checks.

PNB averred that when the subject loan fell due, demands to pay were made on James who, however, failed to heed the demands. Thus, it was prompted to set off James' obligations with his dollar time deposit with the bank, in accordance with the provisions of the promissory notes.

PNB further alleged that it suffered besmirched reputation because of James' groundless suit. Thus, it prayed that James be ordered to pay the amount of ₱1,000,000.00 as moral damages; the amount of ₱500,000.00 as exemplary damages; and the amount of ₱100,000.00 by way of and as attorney's fees.

Trial on the merits thereafter ensued, during which James testified for his cause. He stated that he was a businessman and a college graduate. He affirmed the allegations in his Complaint and asserted that he did not sign any document evidencing receipt of the loan referred to by PNB and for which his dollar time deposit had been applied in payment.<sup>5</sup> To further substantiate his claim, he presented the following documents: (1) a photocopy of CTD No. B-630178,<sup>6</sup> to show that James and his brother have a US Dollar Time Deposit with PNB; (2) letter dated 9 September 2004,<sup>7</sup> to show that James complained against an alleged loan charged against his time deposit; (3) PNB's letter-reply dated 17 November 2004,<sup>8</sup> explaining the reason for the denial of his request; and (d) the letter of James' counsel to PNB demanding the release of his dollar time deposit.<sup>9</sup>

On its part, PNB presented two witnesses: Edna Palomares (*Edna*), PNB's loans officer at its Sucat branch; and Alxis Manalili. Edna testified

<sup>5</sup> TSN, 17 November 2005.

<sup>6</sup> Records, p. 247; Exhibit "A."

<sup>7</sup> Id. at 248; Exhibit "B."

<sup>8</sup> Id. at 249; Exhibit "C."

<sup>9</sup> Id. at 251-252; Exhibit "D."



that on various dates, James entered into loan transactions with PNB. One of these loans was a dollar loan dated 14 February 2001 in the amount of US\$50,000.00.<sup>10</sup> This loan was secured by James' CTD No. 629914 as evidenced by PN No. 0011628152240004. When the loan matured, James failed to pay despite demand which prompted PNB to apply his time deposit under CTD No. B-630178 as payment. Edna clarified that when James applied for the subject loan, the CTD was still numbered as CTD No. 629914. However, when the loan matured, CTD No. 629914 had already been replaced by CTD No. B-630178.<sup>11</sup>

To further support its defense and counterclaims, PNB presented, among others, the following pieces of documentary evidence: (1) duly notarized renewal Loan Application/Approval Form<sup>12</sup> dated 26 February 2002; (2) PN No. 0011628152240004<sup>13</sup> dated 14 February 2001 in the amount of US\$50,000.00; (3) PN No. 0011628152240006<sup>14</sup> dated 26 February 2002 in the amount of US\$50,000.00; and (4) a machine-validated Miscellaneous Ticket<sup>15</sup> dated 14 February 2001 which purportedly indicates that James received the proceeds of the loan in the amount of US\$49,655.34.

### *The RTC Ruling*

In its decision, the RTC ruled in favor of James. It explained that the burden of proof shifted from James to PNB when the latter asserted an affirmative defense – that the loan proceeds were released to James and, thus, PNB properly applied his time deposit as payment of his unpaid loan in accordance with the provisions of the promissory note. PNB, however, failed to substantiate this affirmative defense.

The trial court observed that aside from Edna's bare testimony, no other evidence was presented to prove that the proceeds of the loan subject of the pre-signed loan application were released to and duly received by James. It did not give evidentiary weight to the miscellaneous ticket presented by PNB because it did not bear James' signature. The trial court did not also give any evidentiary value to PN No. 0011628152240006, dated 26 February 2002, noting that the promissory note it purportedly renewed was not presented in evidence.

Since it has not been established that James had an outstanding debt to PNB, the latter's application of the former's time deposit to the alleged loan

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<sup>10</sup> TSN, 12 September 2006, pp. 12-14.

<sup>11</sup> Id. at 58-64.

<sup>12</sup> Records, p. 427; Exhibit "5."

<sup>13</sup> Id. at 438-439; Exhibit "13."

<sup>14</sup> Id. at 440-441; Exhibit "14."

<sup>15</sup> Id. at 445; Exhibit "18."

is improper. Necessarily, James is entitled to the return of his dollar time deposit. The dispositive portion of the RTC decision provides:

**WHEREFORE**, defendant is directed to pay plaintiff the following:

1. The amount of US\$50,860.53 or its peso equivalent plus interest of 1.09375% per annum from December 14, 2004 until fully paid;
2. Attorney's fees in the amount of ₱500,000.00 plus appearance fee of ₱2,000.00 per hearing; and
3. Costs of suit.

Defendant's counter-claims are dismissed for lack of merit.<sup>16</sup>

PNB moved for reconsideration,<sup>17</sup> but the same was denied by the RTC in its Order,<sup>18</sup> dated 28 April 2008.

Undaunted, PNB elevated an appeal before the CA.<sup>19</sup>

### ***The CA Ruling***

In its appealed decision, the CA affirmed with modification the 28 November 2007 decision and 28 April 2008 order of the RTC.

The appellate court concurred with the trial court that the burden of proof shifted to PNB. Unfortunately, PNB failed to substantiate its claims. The appellate court, thus, found no reversible error in the trial court's disquisition that PNB should be held liable to James.

The appellate court, however, modified the RTC decision by reducing the amount of attorney's fees to ₱50,000.00 from the original award of ₱500,000.00 finding the latter to be exorbitant.

The *fallo* of the appealed decision provides:

**WHEREFORE**, the Decision dated 28 November 2007 of the Regional Trial Court of Paranaque City, Branch 195, in Civil Case No. 05-0066, is hereby **AFFIRMED WITH MODIFICATION** in that the



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<sup>16</sup> Id. at 500.

<sup>17</sup> Id. at 509-523.

<sup>18</sup> Id. at 567.

<sup>19</sup> Id. at 568-569.

award of attorney's fees is reduced to Fifty Thousand Pesos (₱50,000.00).<sup>20</sup>

Hence, this petition for review where PNB raised the following issues:

## ISSUES

### I.

WHETHER THE COURT OF APPEALS GRAVELY ERRED WHEN IT HELD THAT THERE WAS NO EVIDENCE SHOWING THAT RESPONDENT RECEIVED THE PROCEEDS OF SUBJECT LOAN, THUS, IGNORING APPLICABLE DECISIONS OF THIS HONORABLE COURT HOLDING THAT THE PROMISSORY NOTE IS THE BEST EVIDENCE THAT THE BORROWER HAS RECEIVED THE LOAN PROCEEDS.

### II.

WHETHER THE COURT OF APPEALS GRAVELY ERRED WHEN IT DISREGARDED THE CONTENTS OF THE NOTARIZED PROMISSORY NOTES, DESPITE THE DEARTH OF CLEAR AND CONCLUSIVE EVIDENCE SUFFICIENT TO OVERTHROW THE PAROL EVIDENCE RULE AND THE PRESUMPTION IN FAVOR OF PUBLIC DOCUMENTS UNDER RULE 132, SECTION 23 OF THE RULES OF COURT.

### III.

WHETHER THE COURT OF APPEALS GRAVELY ERRED WHEN IT DID NOT RULE THAT RESPONDENT WAS BOUND BY HIS PROMISSORY NOTES, EVEN IF THERE WAS NO EVIDENCE TO OVERCOME THE PRESUMPTION THAT EVERY PERSON TAKES ORDINARY CARE OF HIS CONCERNS, ON THE CONTRARY, THE EVIDENCE ON RECORD SHOWS THAT RESPONDENT VOLUNTARILY AND INTELLIGENTLY EXECUTED SUCH PROMISSORY NOTES.<sup>21</sup>

Essentially the issue in this case is whether PNB sufficiently established James' receipt of the loan proceeds.

## THE COURT'S RULING

The appeal is meritorious.

Before going into the merits of the case, it must be underscored that the loan subject of this case is the loan secured by CTD No. B-658788 which

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<sup>20</sup> *Rollo*, p. 15.

<sup>21</sup> *Id.* at 28-29.

was later replaced by CTD No. B-630178. Although PNB insists that the subject loan and the 14 February 2001 loan are one and the same, the documentary evidence it submitted does not support this point.

There is no indication that PN No. 0011628152240006 dated 26 February 2002 is a renewal of PN No. 0011628152240004 dated 14 February 2001. Instead, PN No. 0011628152240006 clearly indicates that it is a renewal of PN No. 0011628152240005.

Furthermore, a reading of PN No. 0011628152240006 dated 26 February 2002 plainly states that it is secured by CTD No. B-658788 (now CTD No. B-630178). In contrast, PN No. 0011628152240004 dated 14 February 2001 states that it is secured by CTD No. 629914. Although PNB's witness, Edna, testified that CTD No. 629914 and CTD No. B-630178 represent the same time deposit account, the latter being a mere replacement of the former, nothing on record would support this claim. Indeed, it is clear from the annotation on CTD No. B-630178 that it replaced CTD No. B-658788, not CTD No. 629914.

While there is a possibility that when Edna testified that CTD No. B-630178 replaced CTD No. 629914, she meant that CTD No. 629914 was first replaced by CTD No. B-658788 which was in turn replaced by CTD No. B-630178, no concrete evidence was offered to prove this point. Thus, the Court opines that the subject loan, which was renewed on 26 February 2002, is independent and distinct from the 14 February 2001 loan. Consequently, and as aptly stated by the trial court, PN No. 0011628152240004 dated 14 February 2001 is immaterial to the present case.

For the same reason, the Court shares the trial court's observation that the original promissory note evidencing the subject loan, and which was renewed by PN No. 0011628152240006, dated 26 February 2002, was not presented in evidence. The trial court, however, is mistaken when it ruled that this fact made PN No. 0011628152240006 dated 26 February 2002 devoid of any evidentiary value.

***Promissory note is the best evidence of the existence of the loan.***

A promissory note is a solemn acknowledgment of a debt and a formal commitment to repay it on the date and under the conditions agreed upon by the borrower and the lender. A person who signs such an instrument is bound to honor it as a legitimate obligation duly assumed by him through the signature he affixes thereto as a token of his good faith. If he reneges on



his promise without cause, he forfeits the sympathy and assistance of this Court and deserves instead its sharp repudiation.<sup>22</sup> The promissory note is the best evidence to prove the existence of the loan.<sup>23</sup>

In this case, James does not deny that he executed several promissory notes in favor of PNB. In fact, during the pre-trial<sup>24</sup> as well as in his Comment/Opposition,<sup>25</sup> dated 18 July 2007, to PNB's formal offer of documentary evidence, James admitted the genuineness of his signatures as appearing on several promissory notes, including PN No. 0011628152240006, dated 26 February 2002, albeit with the caveat that the same were pre-signed for pre-arranged loans which he allegedly never availed of.

The trial court apparently believed James' claim that the loan documents were just pre-signed for pre-arranged loans despite the absence of any corroborating evidence to support it. As a result, it ruled that PNB, indeed, failed to prove that the proceeds of the loan subject of the pre-signed loan application were released to James. The trial court's reliance on James' self-serving allegation, however, is erroneous.

Nothing in PN No. 0011628152240006 dated 26 February 2002 would suggest that it was executed merely to secure future loans. In fact, it is clear from the wordings used therein that James acknowledged receipt of the proceeds of the loan. The said promissory note provides:

**FOR VALUE RECEIVED**, I/We, solidarily promise to pay to the order of the PHILIPPINE NATIONAL BANK (the "BANK") on the stipulated due date/s the sum of Pesos DOLLARS: FIFTY THOUSAND ONLY (P \$50,000.00) (the "Loan"), together with interest at 3.85% p.a. per annum.<sup>26</sup> x x x (emphasis supplied)

In *Ycong v. Court of Appeals*,<sup>27</sup> the petitioners alleged that they did not receive the proceeds of the loan despite executing a promissory note containing the words "for a loan received today xxx." The trial court ruled in favor of the petitioners holding that they were merely intimidated, pressured and coerced into signing the promissory note. On appeal, the appellate court reversed the factual findings by the trial court. In sustaining the reversal by the appellate court, the Court ratiocinated that the promissory note is the best evidence to prove the existence of the loan and there was no need for the

<sup>22</sup> *Pentacapital Investment Corporation v. Mahinay*, 637 Phil. 283, 303 (2010), citing *Sierra v. Court of Appeals*, 286 Phil. 954, 965 (1992).

<sup>23</sup> *Ycong v. Court of Appeals*, 518 Phil. 240, 246 (2006).

<sup>24</sup> Records, p. 163.

<sup>25</sup> Id. at 446-447.

<sup>26</sup> Id. at 440; Exhibit "14."

<sup>27</sup> Supra note 23.



respondent to submit a separate receipt to prove that the petitioners received the proceeds thereof.

Similarly, by affixing his signature on PN No. 0011628152240006, dated 26 February 2002, which contained the words "FOR VALUE RECEIVED," James acknowledged receipt of the proceeds of the loan in the stated amount and committed to pay the same under the conditions stated therein. As a businessman, James cannot claim unfamiliarity with commercial documents. He could not also pretend not understanding the contents of the promissory note he signed considering that he is a lettered-person and a college graduate. He certainly understood the import and was fully aware of the consequences of signing a promissory note. Indeed, no reasonable and prudent man would acknowledge a debt, and even secure it with valuable assets, if the same does not exist.

The fact that PN No. 0011628152240006, dated 26 February 2002, is only a renewal of a previous promissory note identified as PN No. 0011628152240005 does not adversely affect the fact that it is an acknowledgment of a loan duly received. It would be inconceivable for a reasonably diligent person to renew a promissory note if the loan it purportedly evidences is inexistent. As such, the Court rules that PNB sufficiently established that James received the proceeds of the loan subject of PN No. 0011628152240006 (originally PN No. 0011628152240005).

***Parol evidence must be clear and convincing.***

Rule 130, Section 9 of the Rules of Court provides for the parol evidence rule which states that when the terms of an agreement have been reduced into writing, it is considered as containing all the terms agreed upon and there can be, between the parties and their successors in interest, no evidence of such terms other than the contents of the written agreement.

This rule admits of exceptions. A party may present evidence to modify, explain or add to the terms of a written agreement if he puts in issue in his pleading any of the following: (a) an intrinsic ambiguity, mistake or imperfection in the written agreement; (b) the failure of the written agreement to express the true intent and agreement of the parties thereto; (c) the validity of the written agreement; or (d) the existence of other terms agreed to by the parties or their successors-in-interest after the execution of the written agreement.

However, to overcome the presumption that the written agreement contains all the terms of the agreement, the parol evidence must be clear and

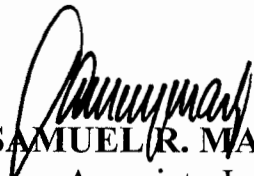


convincing and of such sufficient credibility as to overturn the written agreement.<sup>28</sup>

In this case, James' uncorroborated allegation that the loan documents were merely pre-signed for future loans is far from being the clear and convincing evidence necessary to defeat the terms of the written instrument. Thus, there is no reason to deviate from the terms of the loan as appearing on PN No. 0011628152240006. Consequently, the trial and appellate courts erred when they considered James' unsubstantiated claim over the terms of the promissory note and ruled that PNB failed to prove James' receipt of the loan proceeds.


**WHEREFORE**, the present petition for review on certiorari is **GRANTED**. The 26 October 2011 Decision of the Court of Appeals in CA-G.R. CV No. 91386 is hereby **REVERSED and SET ASIDE**. The case is further **REMANDED** to the court of origin for further proceedings on petitioner Philippine National Bank's counterclaim.

**SO ORDERED.**



**SAMUEL R. MARTIRES**  
Associate Justice

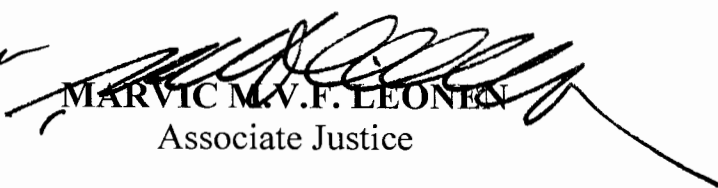
**WE CONCUR:**



**PRESBITERO J. VELASCO, JR.**  
Associate Justice  
Chairperson

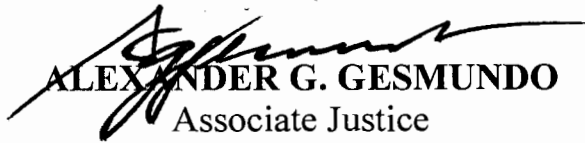


**LUCAS P. BERSAMIN**  
Associate Justice




**MARVIC M.V.F. LEONEN**  
Associate Justice

<sup>28</sup> *Bernardo v. Court of Appeals*, 387 Phil. 736, 746-747 (2000), citing *Sierra v. Court of Appeals*, supra note 22 at 959.

  
**ALEXANDER G. GESMUNDO**  
 Associate Justice


**ATTESTATION**

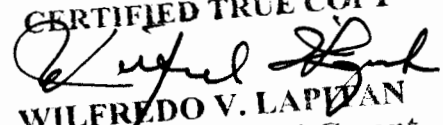
I attest that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.

  
**PRESBITERO J. VELASCO, JR.**  
 Associate Justice  
 Chairperson, Third Division

**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.

  
**ANTONIO T. CARPIO**  
 Acting Chief Justice

**CERTIFIED TRUE COPY**  
  
**WILFREDO V. LAPIDAN**  
 Division Clerk of Court  
 Third Division  
 MAY 25 2018