Republic of the Philippines
Supreme Court
Manila

THIRD DIVISION

SPOUSES MAY S. VILLALUZ and JOHNNY VILLALUZ, JR., Petitioners,	**G.R. No. 192602**
	Present:
-versus-	VELASCO, JR., *J.*, *Chairperson,* BERSAMIN, REYES, JARDELEZA, and CAGUIOA,* *JJ.*
LAND BANK OF THE PHILIPPINES and the REGISTER OF DEEDS FOR DAVAO CITY, Respondents.	Promulgated: January 18, 2017

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D E C I S I O N

JARDELEZA, *J.*:

The Civil Code sets the default rule that an agent may appoint a substitute if the principal has not prohibited him from doing so. The issue in this petition for review on *certiorari*,[1] which seeks to set aside the Decision[2] dated September 22, 2009 and Resolution[3] dated May 26, 2010 of the Court of Appeals (CA) in CA-G.R. CV No. 01307, is whether the mortgage contract executed by the substitute is valid and binding upon the principal.

I

Sometime in 1996, Paula Agbisit (Agbisit), mother of petitioner May S. Villaluz (May), requested the latter to provide her with collateral for a loan. At the time, Agbisit was the chairperson of Milflores Cooperative and she needed ₱600,000 to ₱650,000 for the expansion of her backyard cut flowers business.[4] May convinced her husband, Johnny Villaluz (collectively, the Spouses Villaluz), to allow Agbisit to use their land,

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* Designated as Fifth Member of the Third Division per Special Order No. 2417 dated January 4, 2017.

1 *Rollo*, pp. 30-44.

2 *Id.* at 10-18. Penned by Associate Justice Leoncia R. Dimagiba, with Associate Justices Edgardo A. Camello and Edgardo T. Lloren, concurring.

3 *Id.* at 19.

4 *Id.* at 11.

located in Calinan, Davao City and covered by Transfer Certificate of Title (TCT) No. T-202276, as collateral.[5] On March 25, 1996, the Spouses Villaluz executed a Special Power of Attorney[6] in favor of Agbisit authorizing her to, among others, "negotiate for the sale, mortgage, or other forms of disposition a parcel of land covered by Transfer Certificate of Title No. T-202276" and "sign in our behalf all documents relating to the sale, loan or mortgage, or other disposition of the aforementioned property."[7] The one-page power of attorney neither specified the conditions under which the special powers may be exercised nor stated the amounts for which the subject land may be sold or mortgaged.

On June 19, 1996, Agbisit executed her own Special Power of Attorney,[8] appointing Milflores Cooperative as attorney-in-fact in obtaining a loan from and executing a real mortgage in favor of Land Bank of the Philippines (Land Bank). On June 21, 1996, Milflores Cooperative, in a representative capacity, executed a Real Estate Mortgage[9] in favor of Land Bank in consideration of the ₱3,000,000 loan to be extended by the latter. On June 24, 1996, Milflores Cooperative also executed a Deed of Assignment of the Produce/Inventory[10] as additional collateral for the loan. Land Bank partially released one-third of the total loan amount, or ₱995,500, to Milflores Cooperative on June 25, 1996. On the same day, Agbisit borrowed the amount of ₱604,750 from Milflores Cooperative. Land Bank released the remaining loan amount of ₱2,000,500 to Milflores Cooperative on October 4, 1996.[11]

Unfortunately, Milflores Cooperative was unable to pay its obligations to Land Bank. Thus, Land Bank filed a petition for extra-judicial foreclosure sale with the Office of the Clerk of Court of Davao City. Sometime in August, 2003, the Spouses Villaluz learned that an auction sale covering their land had been set for October 2, 2003. Land Bank won the auction sale as the sole bidder.[12]

The Spouses Villaluz filed a complaint with the Regional Trial Court (RTC) of Davao City seeking the annulment of the foreclosure sale. The sole question presented before the RTC was whether Agbisit could have validly delegated her authority as attorney-in-fact to Milflores Cooperative. Citing Article 1892 of the Civil Code, the RTC held that the delegation was valid since the Special Power of Attorney executed by the Spouses Villaluz had no specific prohibition against Agbisit appointing a substitute. Accordingly, the RTC dismissed the complaint.[13]

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5 *Id.*
6 *Rollo*, p. 55.
7 *Id.*
8 *Rollo*, pp. 56-57.
9 *Id.* at 58-61.
10 *Id.* at 62-66.
11 *Id.* at 13.
12 *Id.*
13 *Rollo*, pp. 69-72.

On appeal, the CA affirmed the RTC Decision. In its Decision[14] dated September 22, 2009, the CA similarly found Article 1892 to be squarely applicable. According to the CA, the rule is that an agent is allowed to appoint a sub-agent in the absence of an express agreement to the contrary and that "a scrutiny of the Special Power of Attorney dated March 25, 1996 executed by appellants in favor of [Agbisit] contained no prohibition for the latter to appoint a sub-agent."[15] Therefore, Agbisit was allowed to appoint Milflores Cooperative as her sub-agent.

After the CA denied their motion for reconsideration, the Spouses Villaluz filed this petition for review. They argue that the Real Estate Mortgage was void because there was no loan yet when the mortgage contract was executed and that the Special Power of Attorney was extinguished when Milflores Cooperative assigned its produce and inventory to Land Bank as additional collateral.[16] In response, Land Bank maintains that the CA and RTC did not err in applying Article 1892, that the Real Estate Mortgage can only be extinguished after the amount of the secured loan has been paid, and that the additional collateral was executed because the deed of assignment was meant to cover any deficiency in the Real Estate Mortgage.[17]

II

Articles 1892 and 1893 of the Civil Code provide the rules regarding the appointment of a substitute by an agent:

> Art. 1892. The agent may appoint a substitute if the principal has not prohibited him from doing so; but he shall be responsible for the acts of the substitute:
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> (1) When he was not given the power to appoint one;
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> (2) When he was given such power, but without designating the person, and the person appointed was notoriously incompetent or insolvent.
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> All acts of the substitute appointed against the prohibition of the principal shall be void.
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> Art. 1893. In the cases mentioned in Nos. 1 and 2 of the preceding article, the principal may furthermore bring an action against the substitute with respect to the obligations which the latter has contracted under the substitution.

The law creates a presumption that an agent has the power to appoint a substitute. The consequence of the presumption is that, upon valid appointment of a substitute by the agent, there *ipso jure* arises an agency relationship between the principal and the substitute, *i.e.*, the substitute becomes the agent of the principal. As a result, the principal is bound by the

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14 *Supra* note 2.
15 *Rollo*, pp. 14-15.
16 *Id.* at 37-39.
17 *Id.* at 93-105.

acts of the substitute as if these acts had been performed by the principal's appointed agent. Concomitantly, the substitute assumes an agent's obligations to act within the scope of authority,[18] to act in accordance with the principal's instructions,[19] and to carry out the agency,[20] among others. In order to make the presumption inoperative and relieve himself from its effects, it is incumbent upon the principal to prohibit the agent from appointing a substitute.

Although the law presumes that the agent is authorized to appoint a substitute, it also imposes an obligation upon the agent to exercise this power conscientiously. To protect the principal, Article 1892 allocates responsibility to the agent for the acts of the substitute when the agent was not expressly authorized by the principal to appoint a substitute; and, if so authorized but a specific person is not designated, the agent appoints a substitute who is notoriously incompetent or insolvent. In these instances, the principal has a right of action against both the agent and the substitute if the latter commits acts prejudicial to the principal.

The case of *Escueta v. Lim*[21] illustrates the prevailing rule. In that case, the father, through a special power of attorney, appointed his daughter as his attorney-in-fact for the purpose of selling real properties. The daughter then appointed a substitute or sub-agent to sell the properties. After the properties were sold, the father sought to nullify the sale effected by the sub-agent on the ground that he did not authorize his daughter to appoint a sub-agent. We refused to nullify the sale because it is clear from the special power of attorney executed by the father that the daughter is not prohibited from appointing a substitute. Applying Article 1892, we held that the daughter "merely acted within the limits of the authority given by her father, but she will have to be 'responsible for the acts of the sub-agent,' among which is precisely the sale of the subject properties in favor of respondent."[22]

In the present case, the Special Power of Attorney executed by the Spouses Villaluz contains no restrictive language indicative of an intention to prohibit Agbisit from appointing a substitute or sub-agent. Thus, we agree with the findings of the CA and the RTC that Agbisit's appointment of Milflores Cooperative was valid.

III

Perhaps recognizing the correctness of the CA and the RTC's legal position, the Spouses Villaluz float a new theory in their petition before us. They now seek to invalidate the Real Estate Mortgage for want of consideration. Citing Article 1409(3), which provides that obligations

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18 CIVIL CODE, Art. 1881.
19 CIVIL CODE, Art. 1887.
20 CIVIL CODE, Art. 1884.
21 G.R. No. 137162, January 24, 2007, 512 SCRA 411.
22 *Id.* at 423-424. Citation omitted.

"whose cause or object did not exist at the time of the transaction" are void *ab initio*, the Spouses Villaluz posit that the mortgage was void because the loan was not yet existent when the mortgage was executed on June 21, 1996. Since the loan was released only on June 25, 1996, the mortgage executed four days earlier was without valuable consideration.

Article 1347 provides that "[a]ll things which are not outside the commerce of men, *including future things*, may be the object of a contract." Under Articles 1461 and 1462, things having a potential existence and "future goods," *i.e.*, those that are yet to be manufactured, raised, or acquired, may be the objects of contracts of sale. The narrow interpretation advocated by the Spouses Villaluz would create a dissonance between Articles 1347, 1461, and 1462, on the one hand, and Article 1409(3), on the other. A literal interpretation of the phrase "did not exist at the time of the transaction" in Article 1409(3) would essentially defeat the clear intent and purpose of Articles 1347, 1461, and 1462 to allow future things to be the objects of contracts. To resolve this apparent conflict, Justice J.B.L. Reyes commented that the phrase "did not exist" should be interpreted as "could not come into existence" because the object may legally be a future thing.[23] We adopt this interpretation.

One of the basic rules in statutory interpretation is that all parts of a statute are to be harmonized and reconciled so that effect may be given to each and every part thereof, and that conflicting intentions in the same statute are never to be supposed or so regarded.[24] Thus, in order to give effect to Articles 1347, 1461, and 1462, Article 1409(3) must be interpreted as referring to contracts whose cause or object is impossible of existing at the time of the transaction.[25]

The cause of the disputed Real Estate Mortgage is the loan to be obtained by Milflores Cooperative. This is clear from the terms of the mortgage document, which expressly provides that it is being executed in "consideration of certain loans, advances, credit lines, and other credit facilities or accommodations obtained from [Land Bank by Milflores Cooperative] x x x in the principal amount of [₱3,000,000]."[26] The consideration is certainly not an impossible one because Land Bank was capable of granting the ₱3,000,000 loan, as it in fact released one-third of the loan a couple of days later.

Although the validity of the Real Estate Mortgage is dependent upon the validity of the loan,[27] what is essential is that the loan contract intended

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[23] The Lawyers Journal, Vol. XVI, January 31, 1951, p. 50, as cited by Tolentino, *Commentaries and Jurisprudence on the Civil Code of the Philippines*, Vol. IV, 1991, p. 629; and Paras, *Civil Code of the Philippines Annotated*, Vol. IV, 2012, p. 818.

[24] *People v. Garcia*, 85 Phil. 651, 654-655 (1950).

[25] CIVIL CODE, Art. 1348 provides: Impossible things or services cannot be the object of contracts.

[26] *Rollo*, p. 58.

[27] CIVIL CODE, Art. 2086.

to be secured is actually perfected,[28] not at the time of the execution of the mortgage contract *vis-à-vis* the loan contract. In loan transactions, it is customary for the lender to require the borrower to execute the security contracts prior to initial drawdown. This is understandable since a prudent lender would not want to release its funds without the security agreements in place. On the other hand, the borrower would not be prejudiced by mere execution of the security contract, because unless the loan proceeds are delivered, the obligations under the security contract will not arise.[29] In other words, the security contract—in this case, the Real Estate Mortgage—is conditioned upon the release of the loan amount. This suspensive condition was satisfied when Land Bank released the first tranche of the ₱3,000,000 loan to Milflores Cooperative on June 25, 1996, which consequently gave rise to the Spouses Villaluz's obligations under the Real Estate Mortgage.

IV

The Spouses Villaluz claim that the Special Power of Attorney they issued was mooted by the execution of the Deed of Assignment of the Produce/Inventory by Milflores Cooperative in favor of Land Bank. Their theory is that the additional security on the same loan extinguished the agency because the Deed of Assignment "served as payment of the loan of the [Milflores] Cooperative."[30]

The assignment was for the express purpose of "securing the payment of the Line/Loan, interest and charges thereon."[31] Nowhere in the deed can it be reasonably deduced that the collaterals assigned by Milflores Cooperative were intended to substitute the payment of sum of money under the loan. It was an accessory obligation to secure the principal loan obligation.

The assignment, being intended to be a mere security rather than a satisfaction of indebtedness, is not a dation in payment under Article 1245[32] and did not extinguish the loan obligation.[33] "Dation in payment extinguishes the obligation to the extent of the value of the thing delivered, either as agreed upon by the parties or as may be proved, unless the parties by agreement—express or implied, or by their silence—consider the thing as equivalent to the obligation, in which case the obligation is totally extinguished."[34] As stated in the second condition of the Deed of Assignment, the "Assignment shall in no way release the ASSIGNOR from liability to pay the Line/Loan and other obligations, except only up to the

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[28] A loan contract is a real contract, not consensual, and, as such, is perfected only upon the delivery of the object of the contract. See *Naguiat v. Court of Appeals*, G.R. No. 118375, October 3, 2003, 412 SCRA 591, 597.

[29] *Id.* at 599.

[30] *Rollo*, pp. 38-39.

[31] *Rollo*, p. 62.

[32] Art. 1245. Dation in payment, whereby property is alienated to the creditor in satisfaction of a debt in money, shall be governed by the law of sales.

[33] *Development Bank of the Philippines v. Court of Appeals*, G.R. No. 118342, January 5, 1998, 284 SCRA 14, 25.

[34] *Philippine National Bank v. Dee*, G.R. No. 182128, February 19, 2014, 717 SCRA 14, 27-28.

extent of any amount actually collected and paid to ASSIGNEE by virtue of or under this Assignment."[35] Clearly, the assignment was not intended to substitute the payment of sums of money. It is the delivery of cash proceeds, not the execution of the Deed of Assignment, that is considered as payment. Absent any proof of delivery of such proceeds to Land Bank, the Spouses Villaluz's claim of payment is without basis.

Neither could the assignment have constituted payment by cession under Article 1255[36] for the plain and simple reason that there was only one creditor, Land Bank. Article 1255 contemplates the existence of two or more creditors and involves the assignment of all the debtor's property.[37]

The Spouses Villaluz understandably feel shorthanded because their property was foreclosed by reason of another person's inability to pay. However, they were not coerced to grant a special power of attorney in favor of Agbisit. Nor were they prohibited from prescribing conditions on how such power may be exercised. Absent such express limitations, the law recognizes Land Bank's right to rely on the terms of the power of attorney as written.[38] "Courts cannot follow one every step of his life and extricate him from bad bargains, protect him from unwise investments, relieve him from one-sided contracts, or annul the effects of [unwise] acts."[39] The remedy afforded by the Civil Code to the Spouses Villaluz is to proceed against the agent and the substitute in accordance with Articles 1892 and 1893.

WHEREFORE, the petition is **DENIED**. The Decision dated September 22, 2009 and Resolution dated May 26, 2010 of the Court of Appeals in CA-G.R. CV No. 01307 are **AFFIRMED**.

SO ORDERED.

FRANCIS H. JARDELEZA
Associate Justice

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35 *Rollo*, p. 63.

36 Art. 1255. The debtor may cede or assign his property to his creditors in payment of his debts. This cession, unless there is stipulation to the contrary, shall only release the debtor from responsibility for the net proceeds of the thing assigned. The agreements which, on the effect of the cession, are made between the debtor and his creditors shall be governed by special laws.

37 *Yulim International Company Ltd. v. International Exchange Bank (now Union Bank of the Philippines)*, G.R. No. 203133, February 18, 2015, 751 SCRA 129, 143. Citation omitted.

38 Art. 1900. So far as third persons are concerned, an act is deemed to have been performed within the scope of the agent's authority, if such act is within the terms of the power of attorney, as written, even if the agent has in fact exceeded the limits of his authority according to an understanding between the principal and the agent.

39 *Vales v. Villa*, 35 Phil. 769, 788 (1916).

WE CONCUR:

PRESBITERO J. VELASCO, JR.
Associate Justice
Chairperson

LUCAS P. BERSAMIN
Associate Justice

BIENVENIDO L. REYES
Associate Justice

ALFREDO BENJAMIN S. CAGUIOA
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, it is hereby certified that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.

MARIA LOURDES P. A. SERENO
Chief Justice

CERTIFIED TRUE COPY

WILFREDO V. LAPITAN
Division Clerk of Court
Third Division

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