

## SECOND DIVISION

[ G.R. No. 171201, June 18, 2010 ]

**SPOUSES BENEDICT AND MARICEL DY TECKLO,  
PETITIONERS, VS. RURAL BANK OF PAMPLONA, INC.  
REPRESENTED BY ITS PRESIDENT/MANAGER, JUAN LAS,  
RESPONDENT.**

### DECISION

**CARPIO, J.:**

#### The Case

This is a petition for review<sup>[1]</sup> of the 17 May 2005 Decision<sup>[2]</sup> and the 14 December 2005 Resolution<sup>[3]</sup> of the Court of Appeals in CA-G.R. CV No. 59769. In its 17 May 2005 Decision, the Court of Appeals affirmed with modification the 22 May 1998 Decision<sup>[4]</sup> of the Regional Trial Court (Branch 61) of Naga City in Civil Case No. RTC 96-3521. In its 14 December 2005 Resolution, the Court of Appeals denied petitioners' motion for reconsideration.

#### The Antecedent Facts

On 20 January 1994, spouses Roberto and Maria Antonette Co obtained from respondent Rural Bank of Pamplona, Inc. a P100,000.00 loan<sup>[5]</sup> due in three months or on 20 April 1994. The loan was secured by a real estate mortgage<sup>[6]</sup> on a 262-square meter residential lot owned by spouses Co located in San Felipe, Naga City and covered by Transfer Certificate of Title (TCT) No. 24196.

The mortgage was registered in the Register of Deeds of Naga City on 21 January 1994 and duly annotated on the TCT of the mortgaged property as Entry No. 58182.

<sup>[7]</sup>

One of the stipulations in the mortgage contract was that the mortgaged property would also answer for the future loans of the mortgagor. Pursuant to this provision, spouses Co obtained on 4 March 1994 a second loan<sup>[8]</sup> from respondent bank in the amount of P150,000.00 due in three months or on 2 June 1994.

Petitioners, spouses Benedict and Maricel Dy Tecklo, meanwhile instituted an action for collection of sum of money against spouses Co. The case, docketed as Civil Case No. 94-3161, was assigned to the Regional Trial Court (Branch 25) of Naga City. In the said case, petitioners obtained a writ of attachment on the mortgaged property of spouses Co. The notice of attachment was annotated on the TCT of the mortgaged property as Entry No. 58941.<sup>[9]</sup>

When the two loans remained unpaid after becoming due and demandable,

respondent bank instituted extrajudicial foreclosure proceedings. In its 5 September 1994 petition for extrajudicial foreclosure, respondent bank sought the satisfaction solely of the first loan although the second loan had also become due.<sup>[10]</sup> At the public auction scheduled on 19 December 1994, respondent bank offered the winning bid of P142,000.00, which did not include the second loan.<sup>[11]</sup> The provisional certificate of sale to respondent bank was annotated on the TCT of the mortgaged property as Entry No. 60794.<sup>[12]</sup>

Petitioners then exercised the right of redemption as successors-in-interest of the judgment debtor. Stepping into the shoes of spouses Co, petitioners tendered on 9 August 1995 the amount of P155,769.50, based on the computation made by the Office of the Provincial Sheriff, as follows:

Bid	price	P142,000.00
.....		
Interest on the bid price from		
December 19, 1994 to August 9, 1995		
at 1% per month		10,934.00
.....		
Expenses incurred in connection with		
the registration of the Provisional		
Certificate of Sale		2,647.00
.....		
Interest on the expenses		188.50
.....		
		P155,769.50

Respondent bank objected to the non-inclusion of the second loan. It also claimed that the applicable interest rate should be the rate fixed in the mortgage, which was 24% per annum plus 3% service charge per annum and 18% penalty per annum. However, the Provincial Sheriff insisted that the interest rate should only be 12% per annum. Respondent bank then sought annulment of the redemption, injunction, and damages in the Regional Trial Court (Branch 61) of Naga City docketed as Civil Case No. RTC 96-3521.

### **The Ruling of the Trial Court**

The trial court ruled, among others, that the second loan, not having been annotated on the TCT of the mortgaged property, could not bind third persons such as petitioners. Applying the 24% per annum interest rate fixed in the mortgage, the trial court computed the redemption price as follows:

Bid	price	P142,000.00
.....		
Interest rate on the bid price for 233 days		22,057.33
.....		
Expenses of registration of the Prov.		2,647.00
Sale.....		
Interest on the expenses for 211		372.24
days.....		

In its 22 May 1998 Decision, the trial court dismissed respondent bank's complaint for annulment of redemption and ordered petitioners to pay respondent bank the deficiency of P11,307.07 on the redemption amount, to wit:

WHEREFORE, premises considered, this Civil Case No. RTC-96-3521 is hereby dismissed and defendants Dy Tecklos are hereby ordered to pay herein plaintiff the insufficiency of the redemption price in the amount of P11,307.07, and thereafter, upon receipt of said amount, the Rural Bank of Pamplona is also ordered to surrender to said defendants Dy Tecklos TCT No. 24196. No pronouncement as to costs.<sup>[14]</sup>

Respondent bank elevated the case to the Court of Appeals insisting that the foreclosed mortgage also secured the second loan of P150,000.00.

### **The Ruling of the Court of Appeals**

The appellate court ruled that the redemption amount should have included the second loan even though it was not annotated on the TCT of the mortgaged property. In its 17 May 2005 Decision, the Court of Appeals affirmed the trial court's decision with the modification that petitioners pay respondent bank the deficiency amounting P204,407.18, with interest at the rate of 24% per annum from 22 May 1998 until fully paid, thus:

WHEREFORE, premises considered, in continued exercise of liberality in redemption, the dismissal of Civil Case No. RTC-96-3521 is AFFIRMED and defendants Dy Tecklo are hereby ordered to pay plaintiff the deficiency of the redemption price in the amount of P204,407.18 with interest at the rate of 24% per annum from May 22, 1998 until fully paid. Upon receipt of the full amount inclusive of interest the Rural Bank of Pamplona, Inc. is ordered to surrender to defendants-spouses Dy Tecklo the owner's duplicate of TCT No. 24196.<sup>[15]</sup>

Aggrieved, petitioners filed a motion for reconsideration, which the Court of Appeals denied. Hence, the present petition for review.

### **The Issue**

The sole issue is whether the redemption amount includes the second loan in the amount of P150,000.00 even if it was not included in respondent bank's application for extrajudicial foreclosure.

### **The Court's Ruling**

The Court finds the petition meritorious.

Petitioners pointed out that the second loan was not annotated as an additional loan on the TCT of the mortgaged property. Petitioners argued that the second loan was

just a private contract between respondent bank and spouses Co, which could not bind third parties unless duly registered. Petitioners stressed that respondent bank's application for extrajudicial foreclosure referred solely to the first loan.

Respondent bank insisted that the mortgage secured not only the first loan but also future loans spouses Co might obtain from respondent bank. According to respondent bank, this was specifically provided in the mortgage contract. Respondent bank contended that petitioners, as redemptioner by virtue of the preliminary attachment they obtained against spouses Co, should assume all the debts secured by the mortgaged property.

The mortgage contract in this case contains the following blanket mortgage clause:

1. That as security for the payment of the loan or advance in the principal sum of ONE HUNDRED THOUSAND PESOS ONLY (P100,000.00) PESOS, Philippine Currency, **and such other loans or advances** already obtained and/or **still to be obtained by the MORTGAGOR/S**, either as MAKER/S, CO-MAKER/S, SURETY/IES OR GUARANTOR/S from the MORTGAGEE payable on the date/s stated in the corresponding promissory note/s and subject to the payment of interest, other bank charges, and to other conditions mentioned thereon, x x x.<sup>[16]</sup> (Emphasis supplied)

A blanket mortgage clause, which makes available future loans without need of executing another set of security documents, has long been recognized in our jurisprudence. It is meant to save time, loan closing charges, additional legal services, recording fees, and other costs. A blanket mortgage clause is designed to lower the cost of loans to borrowers, at the same time making the business of lending more profitable to banks. Settled is the rule that mortgages securing future loans are valid and legal contracts.<sup>[17]</sup>

Presidential Decree No. 1529, otherwise known as the Property Registration Decree, mandates:

SEC. 51. *Conveyance and other dealings by registered owner.* - x x x x

The act of registration shall be the operative act to convey or affect the land insofar as third persons are concerned, and in all cases under this Decree, the registration shall be made in the office of the Register of Deeds for the province or city where the land lies.

SEC. 52. *Constructive notice upon registration.* - Every conveyance, mortgage, lease, lien, attachment, order, judgment, instrument, or entry affecting registered land shall, if registered, filed, or entered in the office of the Register of Deeds for the province or city where the land to which it relates lies, be constructive notice to all persons from the time of such registering, filing, or entering.

It is the act of registration which creates a constructive notice to the whole world