

SPECIAL SECOND DIVISION

[G.R. Nos. 152359 & 174103, September 16, 2008]

**DEVELOPMENT BANK OF THE PHILIPPINES, PETITIONER, VS.
WEST NEGROS COLLEGE, INC., RESPONDENT.**

R E S O L U T I O N

TINGA, J.:

The Development Bank of the Philippines (DBP) questions the Resolution^[1] dated 5 July 2006 issued by the Court of Appeals in CA-G.R. CV No. 38277, entitled *West Negros College, Inc. v. Development Bank of the Philippines*, which declared that the computation of the redemption price for the property subject of this case should be reckoned from the date of the public auction on 24 August 1989 and that after this date, DBP could no longer collect interest from respondent West Negros College, Inc. (WNC). DBP also assails the Resolution^[2] dated 8 August 2006 which denied its motion for reconsideration.

The following antecedent facts are lifted from the Resolution^[3] of the Court of Appeals in the same case dated 14 February 2006:

On October 28, 2002, the Supreme Court rendered a decision in the above-entitled case docketed as G.R. No. 152359 (the "Decision"), setting aside and reversing the decision of this Court, declaring as void and of no effect the Certificate of Redemption issued in favor of West Negros College (WNC) and giving WNC the grace period of sixty (60) calendar days from notice of the finality of the decision within which to redeem the mortgaged properties by paying to Development Bank of the Philippines (DBP) "the balance of the credit of Bacolod Medical Center (as assumed by respondent West Negros College under a deed of assignment) secured by the properties plus the expenses and the agreed rate of interest, to be computed as of the date of the public auction on 24 August 1989, unless petitioner Development Bank of the Philippines has taken material possession of the properties in which case the proceeds of the properties shall compensate the interest but only during the period of their possession."

WNC filed a Motion for Reconsideration asking the Supreme Court to determine the propriety of the imposition of compounded interest, penalties and other charges. Ultimately, it asked for the determination of how much the redemption price should be. Acting on said Motion, the Supreme Court made a Resolution dated May 21, 2004, the dispositive portion of which reads as follows:

"WHEREFORE, the instant *Motion for Reconsideration* is GRANTED only insofar as it seeks the determination of the total redemption price to be paid by West Negros College, Inc, to the Development Bank of the Philippines which, however, shall not be lower than P21,500,000.00. For this purpose, the case is hereby REMANDED to the Court of Appeals which is directed to proceed accordingly with *all deliberate dispatch*."

[4]

The 28 October 2002 Decision^[5] and the 21 May 2004 Resolution^[6] of the Supreme Court became final and executory on 22 June 2004.

Among the issues raised at the hearing conducted by the appellate court to determine the total redemption price is the interpretation of the cut-off date in the imposition and computation of the agreed interest rate to be paid by WNC. Expectedly, it was WNC's position that interest should not be imposed beyond the date of the auction sale as allegedly gleaned from the tenor of the 28 October 2002 Decision of the Supreme Court. DBP for its part contended that the computation of interest and expenses would continue to run after the foreclosure sale until the redemption of the mortgaged properties.

The Court of Appeals initially resolved this issue in DBP's favor, stating in its 14 February 2006 Resolution^[7] that the Supreme Court had intended the interest to accrue even after the foreclosure sale.

However, in the assailed Resolution^[8] dated 5 July 2006, the appellate court reversed its 14 February 2006 Resolution and ruled instead that DBP could no longer collect any interest after the date of the public auction sale for three (3) reasons: *first*, because with the finality of the 28 October 2002 Decision of the Supreme Court, DBP is, in legal contemplation, deemed to have been placed in possession of the subject property, which possession retroacts to the date of the foreclosure sale; *second*, because the provisions of Section 31 of Commonwealth Act No. 459 granting DBP the right, on redemption, to recover interest on the total indebtedness at the rate agreed upon from the date of the auction sale had not been carried over to the present DBP charter, Executive Order (E.O.) No. 81 (1986), as amended; and *third*, because DBP had expressed and adopted a policy as early as 11 October 1996 not to charge interest after the foreclosure of properties mortgaged in its favor.

In its Petition for Review^[9] dated 21 September 2006, DBP claims that the appellate court went beyond the remand authority given to it by this Court which is allegedly limited to the determination of the propriety of the imposition of compounded interest, penalties and other charges. DBP further asserts that apart from the fact that the "legal possession" theory adduced by the Court of Appeals was not raised by WNC itself, DBP was not in actual or material possession of the property even after the certificate of redemption dated 13 November 1991 in favor of WNC was nullified by the Court. No benefit allegedly inured to DBP from the "legal possession" the appellate court deems it to have had, which justifies the elimination of DBP's right to collect interest from WNC.

There is also allegedly no basis for the appellate court's conclusion that it is now DBP's policy not to impose interest on a mortgage obligation after foreclosure. In

fact, its Board Resolution No. 0319 dated 7 March 2000, a certified copy of which was submitted by DBP, clarifies that the instruction not to continue accruing interest after foreclosure was intended for internal booking purposes only but that all interests and charges accruing to the foreclosed account are considered in determining the redemption price of the property.

WNC, in its Comment^[10] dated 29 January 2007, avers that it already acquired a vested right over the policy of non-accrual of interest as expressed in DBP's Resolutions adopted on 11 October 1996 and 26 June 1998. This right allegedly cannot be impaired by Resolution No. 0319 which was issued only in 2000. WNC insists that DBP cannot collect interest and penalties after 24 August 1989 in view of DBP's own policy.

In its Reply^[11] dated 17 May 2007, DBP reiterates that the appellate court went beyond the power given to it by the Court in its 21 May 2004 Resolution to determine the validity of the imposition of compounded interest, penalties and other charges. DBP also alleges that WNC cannot claim any vested right in its internal policy.

Two questions present themselves for resolution in this case. The *first* is whether the appellate court was correct in ruling that only the interest rate agreed upon in the loan documents as of the time of the auction sale on 24 August 1989 should be computed as part of the redemption price, minus the amount of P4,300,000.00 and costs of foreclosure which had already been paid by Bacolod Medical Center (BMC), the assignee of WNC. The *second* is whether the Court of Appeals erred in excluding from the computation of the redemption price the interest inputted by DBP after 24 August 1989.

It should be recalled that equitable considerations have been weighed by the Court when it decided to remand the case to the Court of Appeals notwithstanding the fact that the questions raised in the petition were largely factual in nature. The 28 October 2002 Decision of this Court and its 21 May 2004 Resolution set out definite boundaries as to the scope of the remand of the case to the Court of Appeals. Specifically, the purpose of the remand was solely to determine the basis for or the propriety of the imposition of compounded interest, penalties and other charges to the end that the total redemption price may finally be arrived at. With these parameters, the appellate court should not have revisited the already settled reckoning date in the computation of the total redemption price. Sadly, the final disposition of this case had been sidetracked by a question which a clear-headed reading of this Court's Decision and Resolution would have readily answered.

In its 28 October 2002 Decision, the Court held that in redeeming the foreclosed property, WNC, as assignee of BMC, should pay the balance of the amount owed by the latter to DBP with interest thereon at the rate agreed upon **as of the date of the public auction on 24 August 1989.**^[12] This was reiterated in the Resolution dated 21 May 2004.^[13]

As clearly spelled out by the Court in these dispositions, the redemption price shall be the balance of BMC's obligation, plus expenses and interest, as of the date of the public auction on 24 August 1989. It comes as an unwelcome surprise, therefore, that despite the clear directive of the Court, the Court of Appeals deemed it