

THIRD DIVISION

[G.R. NO. 132287, January 24, 2006]

SPOUSES BONIFACIO AND FAUSTINA PARAY, AND VIDAL ESPELETA, PETITIONERS, VS. DRA. ABDULIA C. RODRIGUEZ, MIGUELA R. JARIOL ASSISTED BY HER HUSBAND ANTOLIN JARIOL, SR., LEONORA NOLASCO ASSISTED BY HER HUSBAND FELICIANO NOLASCO, DOLORES SOBERANO ASSISTED BY HER HUSBAND JOSE SOBERANO, JR., JULIA R. GENEROSO, TERESITA R. NATIVIDAD AND GENOVEVA R. SORONIO ASSISTED BY HER HUSBAND ALFONSO SORONIO, RESPONDENTS.

DECISION

TINGA, J.:

The assailed decision of the Court of Appeals took off on the premise that pledged shares of stock auctioned off in a notarial sale could still be redeemed by their owners. This notion is wrong, and we thus reverse.

The facts, as culled from the record, follow.

Respondents were the owners, in their respective personal capacities, of shares of stock in a corporation known as the Quirino-Leonor-Rodriguez Realty Inc.^[1] Sometime during the years 1979 to 1980, respondents secured by way of pledge of some of their shares of stock to petitioners Bonifacio and Faustina Paray ("Parays") the payment of certain loan obligations. The shares pledged are listed below:

Miguel Rodriguez Jariol	1,000 shares covered by Stock Certificates No. 011, 060, 061 & 062;
Abdulia C. Rodriguez	300 shares covered by Stock Certificates No. 023 & 093;
Leonora R. Nolasco	407 shares covered by Stock Certificates No. 091 & 092;
Genoveva Soronio	699 shares covered by Stock Certificates No. 025, 059 & 099;
Dolores R. Soberano	699 shares covered by Stock Certificates No. 021, 053, 022 & 097;
Julia Generoso	1,100 shares covered by Stock Certificates No. 085, 051, 086 & 084;
Teresita Natividad	440 shares covered by Stock Certificates Nos. 054 & 055 ^[2]

When the Parays attempted to foreclose the pledges on account of respondents' failure to pay their loans, respondents filed complaints with the Regional Trial Court (RTC) of Cebu City. The actions, which were consolidated and tried before RTC Branch 14, Cebu City, sought the declaration of nullity of the pledge agreements, among others. However the RTC, in its decision^[3] dated 14 October 1988,

dismissed the complaint and gave "due course to the foreclosure and sale at public auction of the various pledges subject of these two cases."^[4] This decision attained finality after it was affirmed by the Court of Appeals and the Supreme Court. The Entry of Judgment was issued on 14 August 1991.

Respondents then received Notices of Sale which indicated that the pledged shares were to be sold at public auction on 4 November 1991. However, before the scheduled date of auction, all of respondents caused the consignment with the RTC Clerk of Court of various amounts. It was claimed that respondents had attempted to tender these payments to the Parays, but had been rebuffed. The deposited amounts were as follows:

Abdulia C. Rodriguez	P 120,066.66 .. 14 Oct. 1991
Leonora R. Nolasco	277,381.82 .. 14 Oct. 1991
Genoveva R. Soronio	425,353.50 .. 14 Oct. 1991
	38,385.44 .. 14 Oct. 1991
Julia R. Generoso	638,385.00 .. 25 Oct. 1991
Teresita R. Natividad	264,375.00 .. 11 Nov. 1991
Dolores R. Soberano	12,031.61.. 25 Oct. 1991
	520,216.39 ..11 Nov. 1991
Miguela Jariol	490,000.00.. 18 Oct. 1991
	88,000.00 ..18 Oct. 1991 ^[5]

Notwithstanding the consignations, the public auction took place as scheduled, with petitioner Vidal Espeleta successfully bidding the amount of P6,200,000.00 for all of the pledged shares. None of respondents participated or appeared at the auction of 4 November 1991.

Respondents instead filed on 13 November 1991 a complaint seeking the declaration of nullity of the concluded public auction. The complaint, docketed as Civil Case No. CEB-10926, was assigned to Branch 16 of the Cebu City RTC. Respondents argued that their tender of payment and subsequent consignations served to extinguish their loan obligations and discharged the pledge contracts. Petitioners countered that the auction sale was conducted pursuant to the final and executory judgment in Civil Cases Nos. R-20120 and 20131, and that the tender of payment and consignations were made long after their obligations had fallen due.

The Cebu City RTC dismissed the complaint, expressing agreement with the position of the Parays.^[6] It held, among others that respondents had failed to tender or consign payments within a reasonable period after default and that the proper remedy of respondents was to have participated in the auction sale.^[7] The Court of Appeals Eighth Division however reversed the RTC on appeal, ruling that the consignations extinguished the loan obligations and the subject pledge contracts;

and the auction sale of 4 November 1991 as null and void.^[8] Most crucially, the appellate court chose to uphold the sufficiency of the consignations owing to an imputed policy of the law that favored redemption and mandated a liberal construction to redemption laws. The attempts at payment by respondents were characterized as made in the exercise of the right of redemption.

The Court of Appeals likewise found fault with the auction sale, holding that there was a need to individually sell the various shares of stock as they had belonged to different pledgors. Thus, it was observed that the minutes of the auction sale should have specified in detail the bids submitted for each of the shares of the pledgors for the purpose of knowing the price to be paid by the different pledgors upon redemption of the auctioned sales of stock.

Petitioners now argue before this Court that they were authorized to refuse as they did the tender of payment since they were undertaking the auction sale pursuant to the final and executory decision in Civil Cases Nos. R-20120 and 20131, which did not authorize the payment of the principal obligation by respondents. They point out that the amounts consigned could not extinguish the principal loan obligations of respondents since they were not sufficient to cover the interests due on the debt. They likewise argue that the essential procedural requisites for the auction sale had been satisfied.

We rule in favor of petitioners.

The fundamental premise from which the appellate court proceeded was that the consignations made by respondents should be construed in light of the rules of redemption, as if respondents were exercising such right. In that perspective, the Court of Appeals made three crucial conclusions favorable to respondents: that their act of consigning the payments with the RTC should be deemed done in the exercise of their right of redemption; that the buyer at public auction does not ipso facto become the owner of the pledged shares pending the lapse of the one-year redemptive period; and that the collective sale of the shares of stock belonging to several individual owners without specification of the apportionment in the applications of payment deprives the individual owners of the opportunity to know of the price they would have to pay for the purpose of exercising the right of redemption.

The appellate court's dwelling on the right of redemption is utterly off-tangent. The right of redemption involves payments made by debtors after the foreclosure of their properties, and not those made or attempted to be made, as in this case, before the foreclosure sale. The proper focus of the Court of Appeals should have been whether the consignations made by respondents sufficiently acquitted them of their principal obligations. A pledge contract is an accessory contract, and is necessarily discharged if the principal obligation is extinguished.

Nonetheless, the Court is now confronted with this rather new fangled theory, as propounded by the Court of Appeals, involving the right of redemption over pledged properties. We have no hesitation in pronouncing such theory as discreditable.

Preliminarily, it must be clarified that the subject sale of pledged shares was an extrajudicial sale, specifically a notarial sale, as distinguished from a judicial sale as typified by an execution sale. Under the Civil Code, the foreclosure of a pledge

occurs extrajudicially, without intervention by the courts. All the creditor needs to do, if the credit has not been satisfied in due time, is to proceed before a Notary Public to the sale of the thing pledged.^[9]

In this case, petitioners attempted as early as 1980 to proceed extrajudicially with the sale of the pledged shares by public auction. However, extrajudicial sale was stayed with the filing of Civil Cases No. R-20120 and 20131, which sought to annul the pledge contracts. The final and executory judgment in those cases affirmed the pledge contracts and disposed them in the following fashion:

WHEREFORE, premises considered, judgment is hereby rendered dismissing the complaints at bar, and -

(1) Declaring the various pledges covered in Civil Cases Nos. R-20120 and R-20131 valid and effective; and

(2) Giving due course to the foreclosure and sale at public auction of the various pledges subject of these two cases.

Costs against the plaintiffs.

SO ORDERED.^[10]

The phrase "giving due course to the foreclosure and sale at public auction of the various pledges subject of these two cases" may give rise to the impression that such sale is judicial in character. While the decision did authorize the sale by public auction, such declaration could not detract from the fact that the sale so authorized is actually extrajudicial in character. Note that the final judgment in said cases expressly did not direct the sale by public auction of the pledged shares, but instead upheld the right of the Parays to conduct such sale at their own volition.

Indeed, as affirmed by the Civil Code,^[11] the decision to proceed with the sale by public auction remains in the sole discretion of the Parays, who could very well choose not to hold the sale without violating the final judgments in the aforementioned civil cases. If the sale were truly in compliance with a final judgment or order, the Parays would have no choice but to stage the sale for then the order directing the sale arises from judicial compulsion. But nothing in the dispositive portion directed the sale at public auction as a mandatory recourse, and properly so since the sale of pledged property in public auction is, by virtue of the Civil Code, extrajudicial in character.

The right of redemption as affirmed under Rule 39 of the Rules of Court applies only to execution sales, more precisely execution sales of real property.

The Court of Appeals expressly asserted the notion that pledged property, necessarily personal in character, may be redeemed by the creditor after being sold at public auction. Yet, as a fundamental matter, does the right of redemption exist over personal property? No law or jurisprudence establishes or affirms such right. Indeed, no such right exists.

The right to redeem property sold as security for the satisfaction of an unpaid obligation does not exist preternaturally. Neither is it predicated on proprietary right,