

FIRST DIVISION

[G.R. No. 126908, January 16, 2003]

**PHILIPPINE NATIONAL BANK, PETITIONER, VS. COURT OF
APPEALS, SPOUSES ANTONIO SO HU AND SOLEDAD DEL
ROSARIO AND SPOUSES MATEO CRUZ AND CARLITA
RONQUILLO, RESPONDENTS.**

DECISION

CARPIO, J.:

The Case

This is a petition for review on certiorari^[1] to set aside the Decision^[2] of the Court of Appeals which affirmed in substance the Decision^[3] of the Regional Trial Court, Branch 27, Cabanatuan City. The Court of Appeals sustained the trial court's ruling that the questioned extrajudicial foreclosure was void. The courts a quo declared the sheriff's certificate of sale void, directed the return of the owner's duplicate title to the Registry of Deeds for Cabanatuan City, and cancelled the mortgage inscribed on the title to the property.

The Facts

Private respondents Spouses Mateo Cruz and Carlita Ronquillo ("Spouses Cruz" for brevity) were the registered owners of a parcel of land ("Property" for brevity) situated in Cabanatuan City and covered by Transfer Certificate of Title No. T-4699.

In 1957, Spouses Cruz obtained a loan from petitioner Philippine National Bank ("PNB" for brevity), Cabanatuan Branch, for P70,000.00 ("First Loan" for brevity). A real estate mortgage on the Property secured the First Loan under Entry No. 10433/NT-9679 annotated on TCT No. T-4699 on November 7, 1957.

On October 16, 1964, San Nicolas Agricultural Project, Inc. ("SNAPI" for brevity), where Mateo Cruz was then Vice-President, obtained an agricultural crop loan from PNB, Santiago Branch, for P156,000.00 ("Second Loan" for brevity). Mateo Cruz also signed the loan in his personal capacity. A real estate mortgage on the Property secured the Second Loan under Entry No. 1003/T-4699 annotated on TCT No. T-4699 on October 16, 1964. The Spouses Cruz also mortgaged several other agricultural lands to secure the Second Loan. PNB, Cabanatuan Branch, took custody of all the titles to the mortgaged properties.

In November 1977, on the instance of the Spouses Cruz, Land Bank of the Philippines ("Land Bank" for brevity) remitted to PNB, Cabanatuan Branch, P359,500.00 in bonds and P174.43 in cash and transferred to PNB, Santiago Branch, P25,500.00 in bonds.^[4]

On December 2, 1977, PNB issued in favor of the Spouses Cruz a Deed of Release of Real Estate Mortgage which cancelled the two mortgages on the Property. The cancellation of these mortgages was annotated on TCT No. T-4699. Thus, PNB released all the titles to the Spouses Cruz.

On March 20, 1980, the Spouses Cruz obtained a new loan from PNB, Cabanatuan Branch, for P50,000.00, later increased to P200,000.00 ("Third Loan" for brevity). A real estate mortgage on the Property also secured the Third Loan under Entry No. 47974/T-4699 annotated on TCT No. T-4699 on March 24, 1980.

Private respondents Spouses Antonio So Hu and Soledad del Rosario ("Spouses So Hu" for brevity) became interested in buying the Property. They consulted their counsel, Atty. Rodolfo Domingo, to examine TCT No. T-4699. Finding an existing mortgage annotated on TCT No. T-4699, Atty. Domingo advised the Spouses So Hu to pay PNB the full amount of the Third Loan before signing the deed of sale.^[5]

On March 18, 1983, the Spouses So Hu, on behalf of the Spouses Cruz, paid PNB P200,000.00 representing the Third Loan.^[6] Subsequently, on March 21, 1983, the Spouses Cruz and the Spouses So Hu signed a Deed of Absolute Sale covering the Property.^[7] Thus, the Spouses So Hu demanded from PNB the release of TCT No. T-4699 on the ground that the Spouses Cruz had already paid all their loans secured by real estate mortgages on the Property.^[8] PNB, however, refused.

For the Spouses Cruz's alleged failure to pay their Second Loan, PNB filed a Petition for Sale under Act No. 3135,^[9] as amended, and Presidential Decree No. 385.^[10] On August 27, 1985, Sheriff Ex-Officio Numeriano Y. Galang sold the Property in a public auction sale. PNB was the highest and sole bidder of the Property for P514,105.36. A sheriff's certificate of sale^[11] was issued in PNB's favor and annotated on TCT No. T-4699 as Entry No. 2565.

In October 1986, PNB found the Spouses So Hu occupying the Property. Through its Assistant Manager Vicente Sales of its Cabanatuan Branch, PNB demanded that Spouses So Hu vacate the Property, as PNB did not authorize them to occupy the Property.^[12]

On November 17, 1986, the Spouses So Hu filed an action for Annulment of Public Auction Sale and Certificate of Sale with Petition for a Writ of Preliminary Injunction. The defendants were PNB, Jose S. Miranda as Manager of PNB, Cabanatuan Branch, the Spouses Cruz, Numeriano Y. Galang, as Sheriff Ex-Officio, and the Register of Deeds for Cabanatuan City.

In their complaint, the Spouses So Hu alleged that they were the owners of the foreclosed Property under a Deed of Absolute Sale executed by the Spouses Cruz in their favor. They stressed that PNB had already cancelled and released the prior mortgages on the Property and that they had paid the Third Loan before the foreclosure. Thus, the Spouses So Hu sought to declare the foreclosure and certificate of sale void. They also prayed for the cancellation of the mortgage on the Property, delivery of the owner's duplicate copy of TCT No. T-4699, and award of damages and attorney's fees.

In its answer,^[13] PNB argued that the foreclosure was valid since the “all-inclusive clause” in the third mortgage deed embraces the Spouses Cruz’s Second Loan which, according to PNB, was still unpaid. PNB asserted that the cancellation and release of the second mortgage were due purely to inadvertence and mistake. PNB interposed a cross-claim^[14] against the Spouses Cruz that should the trial court grant the relief prayed for by the Spouses So Hu, the Spouses Cruz be ordered to pay PNB P514,105.36. This amount represented the Spouses Cruz’s alleged outstanding obligation under the Second Loan.

During the pendency of this case, the one-year period of redemption expired without redemption being made. On April 10, 1987, PNB executed an Affidavit of Consolidation of Ownership. Therefore, the Registry of Deeds for Cabanatuan City issued TCT No. 51022 in favor of PNB on June 25, 1987.^[15]

On March 2, 1990, the Spouses Cruz filed their answer^[16] to PNB’s cross-claim whereby the Spouses Cruz admitted that SNAPI obtained the Second Loan from PNB with a real estate mortgage on the Property. However, the Spouses Cruz contended that they had already fully paid the Second Loan on December 2, 1977, as shown by the release of the mortgage annotated on TCT No. T-4699. The Spouses Cruz further alleged that the “all-inclusive clause” is illegal and improper for this clause is too general. The Spouses Cruz added that assuming that the Second Loan is still unpaid, extinctive prescription and laches had already set in and barred the cross-claim.

Subsequently, PNB filed a reply. PNB claimed that the release of the second mortgage was a mistake, and that the right to foreclose has not prescribed because the prescriptive period was suspended by a demand to pay. PNB further claimed that what it foreclosed was the third mortgage which purportedly also secured the Second Loan.^[17]

On April 29, 1993, after trial on the merits, the trial court rendered a decision declaring null and void the certificate of sale in favor of PNB, and ordered the cancellation of TCT No. 51022, including the mortgage entries on TCT No. T-4699. The trial court also awarded moral and exemplary damages, attorney’s fees and litigation expenses in favor of the Spouses So Hu and the Spouses Cruz.^[18]

On May 11, 1993, PNB appealed the adverse decision.^[19] The Court of Appeals modified the decision of the trial court, deleting the award of moral and exemplary damages in favor of the Spouses So Hu. The Court of Appeals also remanded the case to the trial court for further proceedings on PNB’s cross-claim against the Spouses Cruz. The Court of Appeals affirmed the trial court’s ruling in all other respects.

Hence, this petition.

The Ruling of the Court of Appeals

The Court of Appeals declared the extrajudicial foreclosure void based on the following findings of facts:

“First, at the time of sale to spouses Antonio So Hu and Soledad del Rosario, the Property was already free from any liens and encumbrances,

as prior registered mortgages on the Property were already cancelled and such cancellation was duly annotated at the back of the TCT (except the third which was then yet to be released). Conformably, plaintiff had the right to rely on the correctness of such annotation and on what appears on the face of the title. They cannot be charged with knowledge of the "all-inclusive clause" in the third mortgage since, they were not privy to the said contract between PNB and the Cruz spouses. Hence, the validity or invalidity of the all-inclusive clause is of no consequence.

x x x

This conclusively makes Antonio So Hu and Soledad del Rosario buyers in good faith.

Second, PNB knew that Spouses Mateo Cruz and Carlita Ronquillo, appellee spouses So Hu sent appellant bank a letter through its PNB-Cabanatuan Branch Manager, Jose Miranda dated 31 July 2984 (Exhs. D and D-1, Records, p. 126) requesting for the release of the mortgage and the owner's duplicate title in view of the sale of the Property to them. This notwithstanding, PNB foreclosed the Property in an auction sale on 27 August 1985.

It need not be stressed that a mortgagee can only foreclose Property given as a security for an unpaid obligation. In the case at bar, at least insofar as the plaintiffs are concerned, the obligation secured by the Property had already been paid and they had the right to expect that the Property is released from mortgage. Although PNB is not privy to the contract of sale between spouses Cruz and So Hu, it cannot raise the issue that the Property still stood as security for a previous loan because by releasing the Property from the two previous mortgages, it is obviously estopped from claiming otherwise. The rule is embodied in the following provision of the Rules of Court:

x x x"[20]

The dispositive portion of the assailed decision reads:

"WHEREFORE, judgment is hereby rendered as follows:

1. The certificate of sale dated August 27, 1985 issued by the Provincial Sheriff Office in favor of PNB is hereby declared null and void and Entry No. 2565 is hereby ordered cancelled. Defendant PNB is directed to return the owner's duplicate copy of TCT No. T-51022 to the Registry of Deeds for the City of Cabanatuan for its cancellation and TCT No. T-4699 is hereby ordered revived. Defendant PNB is likewise ordered to issue a cancellation and discharge of mortgage inscribed as Entry Nos. 47103 and 47974 annotated in the memorandum of encumbrances of TCT No. T-4699;
2. Appellant Philippine National Bank is ordered to pay Spouses Antonio So Hu and Soledad del Rosario attorney's fees and litigation

expenses in the amount of P25,000.00 and P15,000.00, respectively, as awarded by the trial court.

3. Further, the case is remanded to the trial court for further proceedings/trial for the purpose of resolving the issue on PNB's cross-claim against Spouses Mateo Cruz and Soledad del Rosario.

SO ORDERED.”^[21]

The Issues

The petition is anchored on the following assigned errors:

“I

THE COURT OF APPEALS ERRED IN HOLDING THAT SPOUSES ANTONIO SO HU AND SOLEDAD DEL ROSARIO CANNOT BE CHARGED WITH KNOWLEDGE OF THE “ALL-INCLUSIVE CLAUSE” IN THE THIRD MORTGAGE, SINCE THEY WERE NOT PRIVY TO THE SAID CONTRACT BETWEEN PNB AND THE CRUZ SPOUSES DESPITE THAT THE SAID ANNOTATION WAS CLEARLY INSCRIBED ON TCT NO. T-4699 UNDER ENTRY NO. 47974/T-4699 GIVING NOTICE TO THE WHOLE WORLD THAT “AMENDMENT OF THE MORTGAGE IN FAVOR OF PNB, INSCRIBED UNDER ENTRY NO. 47103 IN THE SENSE THAT THE CONSIDERATION THEREOF HAS BEEN INCREASED TO PHILIPPINE PESOS: TWO HUNDRED THOUSAND PESOS: (P200,000.00) AND TO SECURE ANY AND ALL OBLIGATIONS WITH PNB, WHETHER CONTRACTED BEFORE, DURING OR AFTER THE DATE OF THIS INSTRUMENT.

II

THE COURT OF APPEALS ERRED IN NOT HOLDING THAT THE SALE OF THE MORTGAGED PROPERTY BETWEEN SPOUSES CRUZ AND SPOUSES SO HU DID NOT BIND PNB.

III

THE COURT OF APPEALS ERRED IN NOT HOLDING THAT PNB'S MORTGAGE LIEN AND THE PROPERTY MORTGAGED ARE INSEPARABLE, SO MUCH SO THAT WHOEVER MAY SUBSEQUENTLY ACQUIRE TITLE TO THE MORTGAGED PROPERTY IS BOUND BY THE TERMS OF THE MORTGAGE WHETHER THE TRANSFER BE WITH OR WITHOUT THE CONSENT OF PNB.

IV

THE COURT OF APPEALS ERRED IN AWARDING SPOUSES SO HU P25,000 ATTORNEY'S FEES AND P15,000.00 LITIGATION EXPENSES WITHOUT FACTUAL AND LEGAL BASES.”^[22]

The main issue to resolve is the validity of the extrajudicial foreclosure of the third mortgage deed which secured the allegedly unpaid Second Loan. The validity of the extrajudicial foreclosure in turn hinges on two important questions. First, whether