

****Title:** Norlinda S. Marilag vs. Marcelino B. Martinez: A Case on the Application of Res Judicata and Litis Pendentia in the Context of Judicial Foreclosure and Collection of Debt******

****Facts:****

Rafael Martinez borrowed P160,000.00 from Norlinda Marilag on July 30, 1992, secured by a real estate mortgage, with a 5% monthly interest, repayable within six months. Rafael failed to pay, leading to Marilag initiating a judicial foreclosure proceeding before the Regional Trial Court (RTC) of Imus, Cavite. Rafael defaulted, and the RTC-Imus, on January 30, 1998, reduced the interest rate to 12% per annum, making the total amount due P229,200.00, a decision that had not yet attained finality.

Meanwhile, Marcelino Martinez, Rafael's son, agreed to settle the loan, incurring a total payment of P400,000.00. After learning of the RTC-Imus decision, Marcelino refused further payments which led to Marilag filing a complaint for sum of money and damages against him. Marcelino contended he had overpaid and sought restitution. The RTC initially sided with Marcelino but, upon reconsideration, favored Marilag, ordering Marcelino to pay the balance plus interest.

Dissatisfied, Marcelino appealed to the Court of Appeals (CA), which reinstated the RTC's initial decision, applying the principle of res judicata. Marilag then elevated the matter to the Supreme Court (SC).

****Issues:****

1. Whether the CA erred in applying the doctrine of res judicata in dismissing the collection case.
2. Whether principles of litis pendentia and res judicata prevent Marilag from pursuing a collection action after initiating a judicial foreclosure.

****Court's Decision:****

The SC held that res judicata did not apply due to lack of evidence showing the RTC-Imus decision's finality. However, it found the principle of litis pendentia applicable, barring Marilag from pursuing the collection case. The SC elucidated that Marcelino's assumption of Rafael's debt did not constitute a novation. The foreclosure action barred a subsequent collection suit for the same debt, thus the CA's ruling was upheld with modifications regarding the return of excess payments and deletion of attorney's fees awarded to Marcelino.

****Doctrine:****

1. **Res Judicata** requires a final judgment by a competent court covering the same parties, subject matter, and causes of action.
2. **Litis Pendentia** bars a subsequent suit involving the same parties and cause of action when there is already a pending suit for the same issue.

Class Notes:

- **Res Judicata**: A matter that has been adjudged by a competent court and may not be pursued further by the same parties.
- **Litis Pendentia**: The proscription against the filing of multiple suits for the same cause of action.
- **Novation**: The extinguishment of an obligation through the substitution of a new one, requiring an explicit intent that is absent in the case.
- **Contract Law Principle**: A creditor-mortgagee has a single cause of action against the debtor-mortgagor - recovery of the debt, either by personal action for collection or real action to foreclose, not both.
- **Interest Rates**: Rates stipulated above 3% per month deemed excessive, unconscionable, reducing it to 12% p.a. or as court deems equitable.
- **Solutio Indebiti**: The principle under which excess payment made under a mistake must be returned.

Historical Background:

The case unfolds in the context of Philippine law's transition following the suspension of the Usury Law under Central Bank Circular 905, series of 1982, raising legal debates on interest rate caps and their implications on contracts. Essential to this case is the application of established legal doctrines like *res judicata* and *litis pendentia* in modern financial disputes, highlighting the judiciary's role in balancing the contractual freedoms with equity and fairness in obligations arising from loans secured by mortgages.