

Title: Philippine National Bank vs. Teresita Tan Dee, et al.

Facts:

In July 1994, Teresita Tan Dee (Dee) purchased a lot in Binangonan, Rizal, from Prime East Properties Inc. (PEPI), which was later assigned to the Armed Forces of the Philippines-Retirement and Separation Benefits System, Inc. (AFP-RSBS). PEPI, in September 1996, secured a ₱205,000,000.00 loan from Philippine National Bank (PNB) using several properties as security, including Dee's property. After Dee paid in full, she demanded the delivery of the title from PNB, which the bank refused, leading Dee to file a complaint with the Housing and Land Use Regulatory Board (HLURB) for specific performance.

The HLURB ruled in Dee's favor, ordering the cancellation of the mortgage and the delivery of the free title to Dee. This decision was modified by the HLURB Board of Commissioners, upheld by the Office of the President, and affirmed by the Court of Appeals (CA). PNB's motion for reconsideration was denied, leading to the filing of the present petition for review on the grounds of PNB's valid mortgage over Dee's property and the debt obligation of PEPI and AFP-RSBS to PNB.

Issues:

1. Whether PNB has an obligation to comply with transactions between PEPI/AFP-RSBS and Dee despite not being a party to them.
2. If the mortgage between PNB and PEPI/AFP-RSBS is valid, whether it should still respect the transactions between PEPI/AFP-RSBS and Dee.
3. Whether the mortgage can be released or cancelled in favor of Dee without full payment of the loan by PEPI/AFP-RSBS to PNB.
4. If a dation in payment executed between PEPI and PNB has any impact on the obligation to release the mortgage.

Court's Decision:

The Supreme Court denied the petition for review, affirming the CA's decision. The Court ruled that:

1. PNB is not obligated to perform obligations under transactions between PEPI/AFP-RSBS and Dee as it was not a party to these transactions.
2. Despite the validity of the mortgage, PNB is bound to respect the final transactions between PEPI/AFP-RSBS and Dee, especially after the contract to sell evolved into an absolute sale upon Dee's full payment.
3. Section 25 of Presidential Decree No. 957 mandates the release of the mortgage upon the

full payment of the purchase price, and as such, PNB's refusal to release the mortgage was unjustified.

4. The execution of a dation in payment by PEPI in favor of PNB substantially extinguished PEPI's loan obligations, negating PNB's argument for retaining the mortgage.

Doctrine:

- The principle of relativity of contracts, which states that contracts bind only the parties who entered into them, cannot be invoked to disregard obligations arising from laws designed to protect certain classes, such as PD 957 protecting buyers of real estate on installment.
- Mortgages are accessory contracts securing the fulfillment of a principal obligation and do not affect the ownership of the property mortgaged, subject to the compliance with relevant protective laws like PD 957.
- A dation in payment can extinguish an obligation to the extent of the value of the property delivered, impacting related accessory contracts like mortgages.

Class Notes:

- Relativity of Contracts: Contracts only bind the parties who entered into it (Civil Code, Article 1311).
- Dation in Payment: The delivery and transmission of ownership of a thing by the debtor to the creditor as an accepted equivalent of the performance of the obligation, potentially extinguishing the obligation if it represents the agreed value.
- PD 957 Section 25: Upon full payment, the owner or developer is obligated to deliver the title of the property to the buyer, and mortgages on fully paid lots must be redeemed within six months.

Historical Background:

This case highlights the tension between the rights of mortgagees and purchasers in real estate transactions, especially within the framework of the Philippines' legal protections for buyers of property on installment. It illustrates the balancing act courts perform in upholding contracts and protecting societal interests, underlining the critical role of PD 957 in safeguarding buyers against possible abuses in the real estate industry.