

**\*\*Title\*\*:** Philippine National Bank v. Hon. Court of Appeals, Allan M. Chua, et al.

**\*\*Facts\*\*:**

The case revolves around a real estate mortgage loan obtained by Allan M. Chua, special administrator of the intestate estate of the late Antonio M. Chua, from the Philippine National Bank (PNB). Antonio and his spouse owned a parcel of land, which Allan mortgaged for P450,000.00 payable within a year with an 18.8% annual interest. Upon failure to pay, PNB foreclosed the property and bought it at auction for P306,360.00, leaving a deficit in their total claim. PNB then pursued the deficiency against the estate and Mrs. Asuncion M. Chua, leading to the litigation in the Regional Trial Court (RTC) of Balayan, Batangas, where the complaint was dismissed. PNB's appeal to the Court of Appeals (CA) was also dismissed, leading to the current petition.

**\*\*Procedural Posture\*\*:**

Following the auction and the unresolved deficit, PNB initiated a complaint in the RTC against the estate and Mrs. Chua. The respondents defaulted, and the RTC ruled against PNB. The CA upheld this decision, prompting PNB to petition the Supreme Court (SC) on two main grounds, challenging the CA's interpretation related to pursuing a deficiency claim after extrajudicial foreclosure and the liability of the estate and heirs for the said deficiency.

**\*\*Issues\*\*:**

1. Whether PNB can pursue a deficiency claim against the estate of Antonio M. Chua after electing to foreclose the mortgage extrajudicially.
2. Whether the estate and heirs are liable for the debts of the deceased following such foreclosure.

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

The SC denied PNB's petition, affirming the CA's decision. The Court concluded that under Section 7, Rule 86 of the Rules of Court, a mortgagee (PNB) has three independent and distinct remedies upon the debtor's death. The Court found that by choosing to foreclose the mortgage extrajudicially, PNB effectively waived its right to pursue any deficiency claim against the estate. This decision hinges on the interpretation of the Rules of Court concerning extrajudicial foreclosure and the specific rights and limitations it imposes on creditors when dealing with the estate of a deceased debtor.

**\*\*Doctrine\*\*:**

The SC clarified the application of Section 7, Rule 86 of the Rules of Court, establishing that a creditor holding a secured claim against a deceased's estate has three mutually exclusive options: waive the mortgage to claim the debt as an ordinary claim, judicially foreclose the mortgage and claim any deficiency, or rely solely on the mortgage for foreclosure without a right to claim a deficiency if pursuing extrajudicially. Choosing the latter, as PNB did, waives the creditor's right to any deficiency claim against the estate.

**\*\*Class Notes\*\*:**

- **\*\*Mortgagee's Rights upon Debtor's Death\*\*:** When a debtor dies, a creditor with a mortgage can 1) waive the mortgage and claim the debt as an ordinary claim from the estate, 2) judicially foreclose the mortgage and claim any deficiency as an ordinary claim, or 3) rely on the mortgage alone, foregoing the right to claim any deficiency if the foreclosure is extrajudicial.
- **\*\*Extrajudicial Foreclosure and Deficiency Claims\*\*:** Choosing extrajudicial foreclosure bars the creditor from later claiming a deficiency against the estate.
- **\*\*Estate Liability for Mortgage Debt\*\*:** The estate's liability for a mortgage debt is contingent on the creditor's chosen course of action per the Rules of Court. An election to foreclose extrajudicially discharges the estate from further claims regarding the deficiency.

**\*\*Historical Background\*\*:**

This case illuminates the intricacies of handling debts secured by real estate mortgages against deceased persons' estates under Philippine law. It underscores the balance between creditors' rights and the protection of estates, ensuring that creditors make a definitive choice in their remedy which, once made, precludes alternative courses of action. This doctrine reflects the legal system's approach to ensuring fairness and certainty in the resolution of such disputes, given the unique challenges presented by debtors' demise.