

Title:

Ganzon vs. Inserto: On the Non-Substitutability of a Real Estate Mortgage with a Surety Bond

Facts:

The case originates from a dispute over a real estate mortgage between Rodolfo Ganzon (petitioner) and Randolph and Esteban Tajanlangit (respondents). On March 19, 1979, to secure a promissory note of PHP 40,000 owed by the Tajanlangits to Ganzon, a mortgage was placed over a parcel of residential land in Molo, Iloilo City. Ganzon initiated extrajudicial foreclosure proceedings on August 28, 1979, due to non-payment. In reaction, the Tajanlangits filed a civil action on September 27, 1979, challenging the foreclosure's validity and asserting that the mortgage was to secure a portion of the payment for a different property sale, which Ganzon had not fully honored.

The legal conflict revolved around whether the mortgage could be replaced by a surety bond, which the Tajanlangits proposed and the lower court approved. This legal question led to the procedural journey to the Supreme Court following a series of court orders that favored the substitution—orders that Ganzon contested, arguing they violated the essence of the mortgage contract and the constitutional protection against impairing the obligation of contracts.

Issues:

1. Can a real estate mortgage be replaced by a surety bond as a form of security for an obligation?
2. Does the substitution of a real estate mortgage with a surety bond infringe upon the rights of the mortgagee?
3. Does such substitution violate the non-impairment clause of the Constitution?

Court's Decision:

The Supreme Court ruled in favor of Ganzon, stating that a real estate mortgage, being an accessory contract inseparable from the property, cannot be substituted with a surety bond. The Court emphasized that a mortgage creates a right in rem (a right against the property), while a surety bond represents a right in personam (a right against a person). This fundamental difference means that substituting a mortgage with a bond alters the nature of the lien against the secured obligation, thus impermissibly modifying the terms of the mortgage contract and infringing upon the rights of the mortgagee. Consequently, the Court found the lower court's orders to be without basis and in violation of contractual and

constitutional protections.

Doctrine:

This case reiterates the doctrine that a mortgage lien is inseparable from the property to which it is attached and cannot be replaced by a surety bond without violating the mortgagee's rights and the non-impairment clause of the Constitution. A mortgage is a right in rem and altering this nature into a right in personam through substitution impairs the contractual obligations agreed upon by the parties.

Class Notes:

- **Real Estate Mortgage:** An accessory contract securing an obligation, inseparable from the property, granting a right in rem to the mortgagee.
- **Right in Rem vs. Right in Personam:** Right against the property vs. right against a person. A mortgage lien cannot be converted from a right in rem to a right in personam without violating established legal principles and constitutional rights.
- **Non-Impairment Clause:** Guaranteed by the Constitution, this clause protects the terms of contracts from being impaired or altered by subsequent laws or court orders.
- **Doctrine Application:** The case underscores the importance of adhering to the precise terms of contractual agreements, specifically in the context of mortgages, and provides a clear example of the Judiciary's role in upholding constitutional guarantees against impairing the obligation of contracts.

Historical Background:

The case reflects the Philippine legal system's approach to protecting property rights and contract obligations within the framework of civil law. It highlights the judiciary's interpretative role in ensuring that contractual agreements' integrity is maintained and safeguarded against arbitrary changes, reinforcing the stability and predictability essential to contractual and property law relations.