

Title: Spouses Bernardo vs. Union Bank of the Philippines

Facts:

1. On August 20, 1999, Spouses Anthony Rogelio Bernardo and Ma. Martha Bernardo took out a loan amounting to P3,032,635.57 from Union Bank of the Philippines, secured by a real estate mortgage on a 700-square meter lot in Ayala Alabang Village, Muntinlupa City.
2. The Bernados defaulted on the loan, prompting Union Bank to initiate extrajudicial foreclosure proceedings against the mortgaged property.
3. At a foreclosure sale on September 28, 2000, Union Bank made the highest bid; the Certificate of Sale was registered with the Muntinlupa Registrar of Deeds on February 26, 2001.
4. On February 20, 2002, the Bernados filed a Complaint for annulment of the foreclosure sale against Union Bank, alleging noncompliance with the notice requirement for foreclosure.
5. During pre-trial, both parties entered a Compromise Agreement approved by the RTC on June 2, 2004, where the Bernados agreed to repurchase the property for P5,459,871.19 under a payment schedule.
6. The Bernados defaulted again, causing Union Bank to file a Motion for Issuance of Writ of Execution to consolidate title over the property, which was granted on December 13, 2005.
7. On January 8, 2007, the Bernados filed a Motion to Quash the Writ of Execution, which was partially granted to stay the writ as funds were still collecting as per the agreement.
8. Union Bank's Motion for Reconsideration led to the RTC reaffirming execution on March 31, 2009.
9. The Bernados filed for Judicial Consignation on May 21, 2007, which was granted reconsideration on June 26, 2009, demanding they deposit the remaining purchase balance.
10. Union Bank's certiorari appeal to the CA resulted in reversing the RTC's orders, stressing the enforceability of the Compromise Agreement.
11. The Bernados' motion for reconsideration was denied, leading them to file a Petition for Certiorari before the Supreme Court.

Issues:

1. Whether the original loan obligation was novated by the Compromise Agreement.
2. Whether Union Bank could exercise remedies under the real estate mortgage contract if the Bernados failed to meet the new payment terms.

Court's Decision:

1. The Supreme Court noted the wrong procedural recourse by the Bernados. They should

have pursued an appeal under Rule 45 rather than a certiorari under Rule 65.

2. On the merits, the Court held that the Compromise Agreement did not novate the original obligation because it did not alter the loan, substitute the debtor, or subrogate third-party rights.

3. The Compromise Agreement facilitated payment but did not annul the previous loan. It allowed Union Bank to enforce rights under the real estate mortgage if defaults occurred.

4. The CA was correct in upholding Union Bank's execution of the Writ and rejecting RTC's alteration of remedies under the Agreement.

5. The petition was dismissed, affirming the CA decision that upheld the enforceability of the Compromise Agreement as drafted.

Doctrine:

- A compromise agreement does not extinguish an original obligation unless there is a change in obligation, substitution of debtor, or creditor subrogation.
- Courts must honor terms explicitly agreed to in compromise agreements, including remedies unless altered due to exceptional reasons.

Class Notes:

- Key elements include the enforceability of contracts under Civil Code Articles 1291, 2028, and 2037.
- Novation requires a substantial change in the obligation or personal substitution, absent in this case.
- A certiorari under Rule 65 cannot substitute an appeal if appeal remedies exist (Rule 45 correctness).

Historical Background:

This case highlights the ongoing judicial emphasis on the sanctity of compromise agreements and proper enforcement of foreclosure proceedings in the Philippine banking context, underscoring essential civil procedural norms and creditor rights within the legal framework surrounding mortgage enforcement and bank-creditor disputes.