

### Title

Philippine National Bank vs. Court of Appeals, Spouses Antonio So Hu and Soledad Del Rosario, and Spouses Mateo Cruz and Carlita Ronquillo

### Facts

1. **Spouses Mateo Cruz and Carlita Ronquillo Ownership (1957):**

- The Spouses Cruz owned a parcel of land in Cabanatuan City, covered by Transfer Certificate of Title (TCT) No. T-4699.
- They secured a P70,000.00 loan from PNB Cabanatuan Branch with a mortgage on the property.

2. **Second Loan and Additional Mortgage (1964):**

- Mateo Cruz, as VP of San Nicolas Agricultural Project, Inc. (SNAPI), signed a loan for P156,000.00 from PNB Santiago Branch, securing it with a mortgage on the same property.

3. **Payment through Land Bank (1977):**

- The Spouses Cruz, through Land Bank, remitted various bonds and cash to PNB branches to pay off their loans, resulting in the issuance of a Deed of Release.

4. **New Loan and Third Mortgage (1980):**

- The Spouses Cruz obtained another loan for P50,000.00, later increased to P200,000.00, from PNB Cabanatuan Branch, securing it with another mortgage on the property.

5. **Sale to Spouses So Hu (1983):**

- The Spouses So Hu paid off the third loan and purchased the property from the Spouses Cruz. They demanded the release of TCT No. T-4699 from PNB, but PNB refused.

6. **Foreclosure (1985):**

- Claiming unpaid arrears under the second loan, PNB initiated foreclosure, and the property was sold to PNB at a public auction.

7. **Suit by Spouses So Hu (1986):**

- The Spouses So Hu filed for annulment of the foreclosure and certificate of sale and demanded the cancellation of the mortgage and return of TCT No. T-4699.

8. **Lower Court and Court of Appeals' Decisions:**

- The Regional Trial Court declared the foreclosure void, awarded damages and attorney's

fees, and ordered the restoration of TCT No. T-4699 to the Spouses So Hu.

- The Court of Appeals affirmed the lower court's decision but deleted the damages awarded to the Spouses So Hu.

### ### Issues

1. **Validity of Extrajudicial Foreclosure:**

- Whether PNB validly foreclosed the mortgage secured by the allegedly unpaid Second Loan.

2. **All-Inclusive Clause:**

- Whether the "all-inclusive clause" of the third mortgage extended to cover the Second Loan.

3. **Good Faith Purchasers:**

- Whether Spouses So Hu, as purchasers, were bona fide and could rely on the annotations on the title.

4. **Damages, Attorney's Fees, and Litigation Expenses:**

- Whether the award of damages and attorney's fees to the Spouses So Hu by the lower court was justified.

### ### Court's Decision

1. **Extrajudicial Foreclosure:**

- The Court found that the foreclosure was invalid as both the Second and Third Loans had been settled:

- Payment evidenced through bonds and cash via Land Bank.

- Annotation of the release on TCT No. T-4699.

- Foreclosure cannot occur on a settled obligation.

2. **All-Inclusive Clause:**

- The Court deemed the issue moot because the Second Loan was fully paid, thus extinguishing any obligations under the "all-inclusive clause."

3. **Good Faith Purchasers:**

- The Spouses So Hu were deemed buyers in good faith as they acted based on correct annotations and paid the mortgage off before the transaction.

4. **Damages and Attorney's Fees:**

- The Court deleted the award for attorney's fees and litigation expenses for lack of factual and legal basis.

**Doctrine**

- **Rescission of Mortgage upon Payment:**
  - Where the mortgage principal is paid, the mortgage obligation ceases to exist.
- **Good Faith Reliance on Title Annotations:**
  - Buyers can rely on the correctness of annotations on the title at the time of sale and are protected if they act in good faith.

**Class Notes**

- **Accessory Contract Doctrine:**
  - Mortgage is an accessory contract and is dependent on the principal loan obligation.
- **Good Faith Purchasers Doctrine:**
  - Protects individuals who rely on title records and act on the information therein.
- **Extinguishment of Mortgage:**
  - Payment of principal debt extinguishes the mortgaged obligation and precludes foreclosure.

**Historical Background**

- **Agricultural Loans and Foreclosure:**
  - This case emerged from the practice of securing loans with real estate in agricultural sectors and addresses issues pertinent to foreclosure practices in the Philippines.
- **Legal Protections in Real Estate Transactions:**
  - It highlights legal protections afforded to good faith purchasers of real estate and underscores the significance of clear, accurate property title annotations.