

### Pablo P. Garcia vs. Yolanda Valdez Villar

#### Facts

1. **Initial Ownership and First Mortgage**: Lourdes V. Galas originally owned a property at Malindang St., Quezon City, covered by Transfer Certificate of Title (TCT) No. RT-67970(253279). On July 6, 1993, Galas and her daughter, Ophelia G. Pingol, mortgaged the property to Yolanda Valdez Villar for PHP 2,200,000.
2. **Second Mortgage**: On October 10, 1994, Galas and Pingol mortgaged the same property to Pablo P. Garcia for PHP 1,800,000. Both mortgages were annotated on the TCT.
3. **Sale to Villar**: On November 21, 1996, Galas sold the property to Villar for PHP 1,500,000, declaring it free of liens. This deed was registered on December 3, 1996, leading to the issuance of a new TCT for Villar while carrying over the annotations.
4. **Garcia's Legal Actions**: On October 27, 1999, Garcia filed a Petition for Mandamus with Damages, later amended to a Complaint for Foreclosure of Real Estate Mortgage with Damages, against Villar, alleging bad faith and the failure of Villar to acknowledge his mortgage.
5. **RTC Decision**: The Regional Trial Court ruled in favor of Garcia, directing Villar to pay PHP 1,800,000 plus interest or face foreclosure of the property.
6. **Court of Appeals Decision**: Villar appealed, and the Court of Appeals reversed the RTC's decision, stating that Garcia lacked a cause of action against Villar.

#### Issues

1. **Validity of the Second Mortgage**: Whether the second mortgage to Garcia was valid.
2. **Validity of Sale to Villar**: Whether the sale of the subject property to Villar was valid.
3. **Prohibition on Pactum Commissorium**: Whether the sale violated the prohibition on pactum commissorium.
4. **Foreclosure Rights of Garcia**: Whether Garcia's action for foreclosure of the mortgage can prosper.

#### Court's Decision

**1. Validity of the Second Mortgage:**

The Supreme Court affirmed that both the second mortgage to Garcia and the sale to Villar

were valid. The Deed of Real Estate Mortgage between Galas and Villar did not contain restrictions against further encumbrance or subsequent sale, thus, Galas was within her rights to execute the second mortgage and later sell the property.

**\*\*2. Validity of the Sale to Villar:\*\***

The sale of the property to Villar was also deemed valid by the Court as there was no prohibition in the mortgage deed against selling the property. The transfer of the property did not automatically relieve the property from existing mortgages.

**\*\*3. Prohibition on Pactum Commissorium:\*\***

The Court found no violation of the prohibition on pactum commissorium. The subject property was not automatically appropriated by Villar upon Galas's failure to pay; rather, it was a separate transaction for further consideration between willing parties. The stipulation giving Villar the power to sell the property in case of default was not equivalent to automatic appropriation prohibited under Article 2088 of the Civil Code.

**\*\*4. Foreclosure Rights of Garcia:\*\***

The Supreme Court ruled that Garcia had grounds to proceed with the foreclosure since the second mortgage remained undischarged and followed the property irrespective of the transfer. However, Garcia's action for foreclosure against Villar specifically was not sustainable without first proving the original debtors' (Galas and Pingol) failure to pay upon a formal demand.

**#### Doctrine**

**\*\*1. Mortgage Follows Property\*\*:**

A mortgage is a real right that follows the property to which it attaches, regardless of subsequent transfers (Civil Code Art. 2126).

**\*\*2. Prohibition on Pactum Commissorium\*\*:**

The creditor cannot appropriate the mortgaged property outright; any stipulation allowing automatic transfer of ownership to the mortgagee upon default is void (Civil Code Art. 2088).

**\*\*3. Substitution of Debtors\*\*:**

A purchaser of a mortgaged property does not assume the personal obligation to pay the mortgage debt unless explicitly agreed upon; the obligation remains with the original mortgagors unless novation occurs (Civil Code Art. 1293).

### #### Class Notes

- **Elements of Mortgage**:
  - Constitution of mortgage by the owner of the property.
  - Annotation on the title of the property.
  - The mortgage follows the property regardless of ownership changes (Art. 2126).
- **Prohibition on Pactum Commissorium**:
  - Two elements: property as security and stipulation for automatic appropriation void (Art. 2088).
- **Subrogation and Novation**:
  - Mortgage remains enforceable against the property regardless of owner changes.
  - Novation requires consent from all parties, especially the creditor (Art. 1293).

### #### Historical Background

The case provides a view into the importance of adhering to the stipulations within mortgage deeds and the understanding of rights that follow real properties. The Philippine legal framework on mortgages, particularly prohibitions against automatic appropriation (pactum commissorium), and the differentiation between the mortgagor's personal obligation and the in rem nature of mortgages against properties are crucial aspects highlighted in this case. The ruling further solidifies the principle that a mortgage lien remains with the property and binds subsequent owners, reinforcing the creditor's rights protected by the Civil Code.