

SPOUSES INOCENCIO H. GONZALES AND ROSARIO ESQUIVEL GONZALES, PETITIONERS, VS. THE GOVERNMENT SERVICE INSURANCE SYSTEM THRU GENERAL MANAGER ROMAN A. CRUZ, JR. AND THE MANAGER, RE...

G.R. No. L-51997. September 10, 1981

Ponente: MELENCIO-HERRERA, J.

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MELENCIO-HERRERA, J.:

We view this Petition as substantially one for Mandamus to compel the respondent Government Service Insurance System (GSIS) to accept 6% interest-bearing bonds issued by the Land Bank of the Philippines at their par or face value as payment for petitioners' outstanding housing loan.

On April 2, 1968, August 14, 1968 and November 7, 1968, petitioner-spouses Inocencio H. Gonzales and Rosario Esquivel Gonzales obtained a housing loan of P80,000.00 from the respondent GSIS. This was to be repayable within fifteen years at 6% interest per annum for the first P30,000.00 and 9% for the balance. GSIS accepted as collaterals two (2) residential lots located in Quezon City, and two (2) agricultural lands located in Jaen, Nueva Ecija. Of the latter two, one is 15.7880 hectares in area, while the other is 9.4602 hectares.

Petitioners were able to pay several monthly installments of P814.38 until both of them retired compulsorily from government service in 1973, leaving an unpaid obligation of over P73,000.00, which, as of May 31, 1978, amounted to P135,884.87 because of accumulated interests or arrearages.

By virtue of Presidential Decree No. 27, other-wise known as the Tenants' Emancipation Act, effective October 21, 1972, the agricultural lands of petitioners were subdivided and awarded by the then Department of Agrarian Reform to the tenant-farmers therein. It was only in May of 1979, however, that payment by the Land Bank became remittable covering, in particular, the 15-hectare land of petitioners in Jaen.

The land, having been appraised at P117,005.00, that sum was tendered by the Land Bank to the GSIS broken down as follows: 20% in cash, or P23,505.00 (recomputed at P23,401.00), and 80% in bonds or P93,500.00 (re-computed at P93,604.00). The GSIS refused acceptance unless the payment in bonds was to be credited thus: P16,400.00 at par (the loan value of the property), and P77,100.00 in Land Bank bonds discounted at 18% interest per annum to maturity,[1] actuarially computed at P25,375.00. In effect, the bonds were given a creditable value of only P41,775.00 (P16,400.00, at par, plus P25,375.00, the discounted value) compared to its face value of P93,500.00.

Petitioners, on July 30, 1979, accepted under protest the condition of the GSIS. This, however, did not stop them from seeking reconsideration of the decision of the GSIS to the extent of appealing to the Office of the President on September 24, 1979 and offering to pay the balance of their obligation in cash provided GSIS would accept at par value the Land Bank bonds without awaiting payment corresponding to their other 9-hectare agricultural land in Jaen.

Without reconsidering its previous position, the GSIS resolved:

"X x x. In accordance with GSIS policy on the matter, the proposed remittance of Land Bank bonds of P93,604.00 will be accepted at par only for P16,400 (the loan value of the property), and the balance of P77,200.00 at the dis-counted rate to yield the System 18% per annum to maturity. The total amount creditable, therefore, is only P65,176.00 (P23,401.00 in cash, and P93,604.00 in Land Bank bonds with a creditable value of P41,775.00)."[2]

Subsequently, the instant Petition for Mandamus was filed on November 28, 1979, with petitioners praying that the GSIS be directed to accept the pay-ment of Land Bank bonds at par value, without any discount whatsoever, so that all of petitioners' collaterals could be released. They also ask for actual, moral and exemplary damages, aside from attorney's fees and costs of suit.

The issue is whether or not under the provisions of section 80, Republic Act No. 3844, as amended, the GSIS may be compelled to accept Land Bank bonds at face value in payment of outstanding loans secured partially by lands taken by the Land Bank under Operation Land Transfer.

Section 80 of Republic Act No. 3844, otherwise known as "The Code of Agrarian Reforms of the Philippines," as amended by Presidential Decree No. 251, provides for the various modes of settlement by the Land Bank:

"Sec. 80. Modes of Payment. -? The Bank shall finance the acquisition of farm lots under any of the following modes of settlement:

"1. Cash payment of 10% and balance in 25-year tax-free 6% Land Bank bonds:

xxx xxx xxx

"In the event there is an existing lien or encumbrance on the land in favor of any Government lending institution at the time of acquisition by the Bank, the landowner shall be paid the net value of the land (i.e., the value of the land determined under Proclamation (sic) No. 27 minus the outstanding balance/s of the obligation/s secured by the lien/s or encumbrance/s), and the outstanding balance/s of the obligations to the lending institution/s shall be paid by the Land Bank in Land Bank bonds or other securities; existing charters of those institutions to the contrary notwithstanding. A similar settlement may be negotiated by the Land Bank in the case of obligations secured by liens or encumbrances in favor of private parties or institutions." (*Italics ours*)

Clearly, when lands with existing encumbrances are acquired under the land reform program, the land owner is paid the net value of the land as determined under Presidential Decree No. 27, minus the outstanding balance of his obligation to a government lending institution, which is to be paid directly to the latter by the Land Bank in Land Bank bonds, existing charters of those government lending institutions to the contrary notwithstanding. The insistence of the GSIS to dis-count those bonds (notwithstanding the alleged "reason-ableness" of the 18% discount rate) is to defeat that very provision aimed not only to cushion the impact of dispossession on the land owner but also to benefit the tenant so that the latter may obtain title to the land free from any lien or encumbrance.

True, the statute does not explicitly provide that Land Bank bonds shall be accepted at their face value. There can be no question, however, that such is the intendment of the law particularly in the absence of any provision expressly permitting discounting, as differentiated from Republic Act No. 304, or the Backpay Law, as amended by Republic Acts Nos. 800 and 897, which expressly allows it.

Land Bank bonds are certificates of indebtedness, approved by the Monetary Board of the Central Bank, fully tax-exempt both as to principal and income, and bear interest at the rate of 6% per annum redeem-able at the

option of the Land Bank at or before maturity, which in no case shall exceed 25 years. They are fully negotiable and unconditionally guaranteed by the Government of the Republic of the Philippines.[3]

These bonds are deemed contracts and the obligations resulting therefrom fall within the purview of the non-impairment clause of the Constitution, and any impairment thereof may take any encroachment in any respect upon the obligation and cannot be permitted.[4] Thus, the value of these bonds cannot be diminished by any direct or indirect act, particularly, since said bonds are fully guaranteed by the Government of the Republic of the Philippines. They are issued not in the open market nor for the primary purpose of raising funds or pooling financial resources but in the captive market of landowners and to facilitate the speedy transfer of lands to the tenant-farmers in support of the land reform program of the Government. They are not ordinary commercial paper in that sense subject to discounting.

The GSIS fears disastrous consequences on its actuarial solvency and capacity to pay retirement, insurance and other claims of its members if it were to accept the bonds at par or face value. Whatever unfavorable results the acceptance may have on its finances, the effects must be deemed to have been intended[5] by Presidential Decree No. 251, particularly, when it provided for the payment in bonds to government lending institutions their "existing charters to the contrary notwithstanding." If iniquitous to said institutions, it remains now with the legislative branch to make the necessary revisions if desired. The traditional role assigned to the Judiciary is to implement and not to thwart fundamental policy goals.[6]

Although executive construction is not necessarily binding upon the Courts[7], apropos to mention here is Opinion No. 141, series of 1976, of then Secretary of Justice Vicente Abad Santos on substantially the same facts as those in the case at bar, wherein he opined that there is legal justification for requiring the acceptance by the Government lending institutions of Land Bank bonds under the circumstances.[8]

It should also be borne in mind that Republic Act No. 3844, then known as the Agricultural Land Reform Code, is a social legislation whose implementation has been made more imperative by Section 6, Article II of the 1973 Constitution.[9] It is designed to promote economic and social stability. It must be interpreted liberally to give full force and effect to its clear intent.[10] This liberality in interpretation, however, should not accrue solely in favor of actual tillers of the land, the tenant-farmers, but should extend to landowners as well, especially those owning "small landholdings", by which is meant landholdings of 24 hectares and less than 24 hectares.[11] These landowners constitute part of the economic middle class which the Government is trying to build. They deserve as much consideration as the tenants themselves in order not to create an economic dislocation, were tenants solely favored but this particular group of landowners impoverished.[12]

In support of its stand, the GSIS further advances the ratiocination that since the agricultural land of 15 hectares subjected to land reform is only one of the securities for petitioners' out-standing obligation with the GSIS, the Land Bank bond-payments should be applied at par value only to that portion of the loan secured by the land covered by Operation Land Transfer. Stated otherwise, the GSIS is not compelled to accept Land Bank bonds for the discharge of existing liens or encumbrances on lands given as security to the GSIS but not acquired by the Land Bank under Operation Land Transfer. The obligation of the GSIS, it is claimed, is "limited to acceptance of Land Bank bonds to pay the loan corresponding to the loan value of the acquired land, and nothing more."

We find the foregoing asseverations self-serving and in contravention of Presidential Decree No. 251, which ordains that "the outstanding balance of the obligations to the lending institution/s shall be paid by the Land Bank in Land Bank bonds or other securities". (Italics supplied). It is clear then that it is not only the loan value but the outstanding balance of the obligation that has to be settled with Land Bank bonds, and as discussed above, at their par or face value.

The fact that only one agricultural land of the four securities was placed under land reform should make no difference. Although it may be conceded that the obligation of the petitioners is, in a sense, divisible because it can be settled partially according to current practice, it does not render the mortgage of four (4) parcels of land also divisible. Generally, the divisibility of the principal obligation is not affected by the indivisibility of the mortgage.[13] The mortgage obligation is indivisible; that is, it cannot be divided among the different lots.[14] A real estate mortgage voluntarily constituted by the debtor on two or more parcels of land is one and indivisible.[15] Each and every parcel under mortgage answers for the totality of the debt.[16] Being indivisible, the full value of the one parcel being paid for by the Land Bank should be applied in full to the outstanding loan obligation without any discounting.

The case at bar does not fall under the exception in Article 2089 of the Civil Code where each of the several things given in mortgage guarantees only a determinate portion of the credit. This exception contemplates separate debts secured by separate properties, which is not the factual set-up herein. Neither can it be said that the Land Bank, by operation of law, has rendered the mortgage of the four parcels divisible by taking only one of them solely to obtain its release. The basic indivisibility of the mortgage obligation still remains unimpaired despite that fact. To hold that the acceptance of the bonds at par value should be limited only to the loan value of properties acquired by the Land Bank but should be discounted as to other lands not so acquired, would not only run counter to the principle of indivisibility of a mortgage and contravene the clear mandate of PD No. 251, but would also reduce the bond payment to the dispossessed land-owner by approximately one-half, to his complete detriment. This is a consequence that neither law, equity, nor justice would countenance.

WHEREFORE, granting Mandamus, respondent Government Service Insurance System is hereby required to accept the bonds issued by the Land Bank of the Philippines at their par or face value in payment of petitioners' outstanding balance. No findings as to damages. No costs.

SO ORDERED.

Teehankee, (Chairman), Makasiar, Fernandez, and Guerrero, JJ., concur.

[1] Letter of the Manager, Residential Loans Department, GSIS, to the Asst. Vice-President, Land Transfer Operations Department, Land Bank of the Philippines, Annex "D", Rollo p. 17.

[2] Board Meeting No. 28, dated October 4, 1979, Annex "F", Rollo p. 22.

[3] Section 76, RA 3844, as amended by PD 251.

[4] *Dantoni vs. Board of Levee Comrs.*, 227 La 575, 80 So. 2d 81.

[5] *Vide, Tirona vs. City Treasurer of Manila*, 22 SCRA 219 (1968).

[6] *Gonzales vs. Estrella*, 91 SCRA 294 (1979).

[7] *Ramos vs. CIR*, 21 SCRA 1282 (1967).

[8] According to the Opinion: "x x x. True, the provision under consideration does not expressly provide that Land Bank bonds shall be accepted by government lending institutions at their face or par value. But I think this necessarily flows from the very language of the above-quoted provision. For one, the first mode of payment provided for is 'cash payment of 10% and balance (i.e., 90%) in 25-year tax-free 6% Land Bank bonds.' For another, where there is a lien or encumbrance in favor of a government lending institution, 'the outstanding balance/s of the obligations to the lending institution/s shall be paid by the Land Bank in Land Bank bonds or

other securities.' That an implementation of the GSIS view would operate to defeat these provisions may easily be seen from an application thereof to the Villarosa case.

Upon inquiries with the Land Bank, this Office has been informed that Dr. Villarosa is to be paid by the Land Bank for her farm lot P28,335 in cash and P178,130 in bonds, and that the outstanding balance of her obligation to the GSIS is P76,900.00. And upon similar inquiries from the GSIS, it has informed this Office that acceptance by it of the bonds 'at a discounted value to yield the System an effective rate of interest at 18% per annum to maturity' means that the System should be paid in bonds about three times the amount of the existing balance in its favor, because, according to its actuarial computations, payment of P1,000 in bonds to the GSIS will extinguish only about P329.12 of the outstanding balance of the landowner's obligation to it. (Thus, if the outstanding balance of the obligation to it is, say, P1,000, the GSIS should be paid approximately P3,000 in bonds if the obligation is to be totally extinguished.) Now, applying this to the Villarosa case, the outstanding balance with the GSIS of P76,900 would add up to about P230,700 in bonds -- in other words, more than the actual outstanding balance by P153,800. This would practically wipe out Dr. Villarosa's share in bonds because she would receive only P24,300 in bonds as compensation for her land, thus nullifying the above-cited provision requiring payment in bonds of the balance -- or 90% -- of the amount payable to the landowner: let alone that the GSIS would be receiving more than the 'outstanding balance' of the loan, contrary to the above-quoted provision that it is the outstanding balance of the loan which should be paid the government lending institution."

[9] Paulo vs. Court of Appeals, 54 SCRA 253 (1973).

[10] Padasas vs. Court of Appeals, 82 SCRA 250 (1978).

[11] Letter of Instruction No. 143, dated October 31, 1973.

[12] See "Whereas". clauses of LOI No. 143.

[13] 10 Salvat 30-31, cited in Tolentino, Commentaries and Jurisprudence on the Civil Code of the Philippines, 1959, Vol. 5, p. 463.

[14] Aquino vs. Macondray & Co., Inc., et al., 97 Phil. 731 (1955).

[15] Villar vs. De Paderange, 97 Phil. 604 (1955).

[16] PNB vs. Mallorca, 21 SCRA 694 (1967).

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