

REPUBLIC OF THE PHILIPPINES, IN BEHALF OF THE RICE AND CORN ADMINISTRATION, PETITIONER, VS. HON. WALFRIDO DE LOS ANGELES, IN HIS CAPACITY AS JUDGE OF THE COURT OF FIRST INSTANCE...*G.R. No. L-30187. June 25, 1980*

Ponente: CONCEPCION JR., J.

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Petition for certiorari and prohibition, with preliminary injunction, to annul and set aside the order of the respondent Judge in Civil Case No. Q-9384 of the Court of First Instance of Rizal, Branch IV, Quezon City, entitled: "Petra R. Farin, et al., petitioners, versus Benito Macrohon, et al., respondents," dated December 23, 1967, ordering "the Rice and Corn Administration and all other business concerns holding offices at the building known as 'Doña Petra Building,' through their proper representative x x x to channel or pay directly to herein respondent Marcelo Steel Corporation, at its main office at Malabon, Rizal, the rents for the use of the said building, offices, and/or premises," as well as the orders dated April 3, 1968, May 14, 1968, and December 19, 1968, all affirming the said order of December 23, 1967.

It appears that on October 29, 1964, the spouses Petra R. Farin and Benjamin Farin obtained a loan from the Marcelo Steel Corporation in the amount of P600,000.00, and as security therefor, the said spouses constituted, in favor of the said corporation, a real estate mortgage upon their parcel of land situated at Quezon City covered by TCT No. 42589 of the Registry of Deeds of Quezon City.[1] On July 24, 1965, the mortgagee wrote the Sheriff of Quezon City requesting the extra-judicial foreclosure of the aforesaid mortgage.[2] Accordingly, the sheriff advertised and scheduled the extra-judicial foreclosure sale of the mortgaged property for August 26, 1965. However, on August 21, 1965, the mortgagors filed a petition for prohibition with injunction and damages against Benito Macrohon, as sheriff of Quezon City, and the Marcelo Steel Corporation, with the Court of First Instance of Rizal, docketed therein as Civil Case No. Q-9384, wherein they prayed that the respondent sheriff be permanently enjoined from proceeding with the scheduled sale at public auction of the mortgaged property, and that the respondent Corporation be condemned to pay the petitioners P200,000.00 as actual and moral damages and P50,000.00 as penal and compensatory damages and P30,000.00 as attorney's fees, upon the ground that they have not been in de-fault in the payment of their obligation.[3] Acting upon the petition, the herein respondent Judge Walfrido de los Angeles, issued an order commanding the respondent Sheriff and the respondent Corporation to desist from proceeding with the public auction sale of the property scheduled on August 26, 1965.[4]

While the above case was pending, Petra Farin leased portions of the "Doña Petra Building", situated on the mortgaged premises, to the Rice and Corn Administration, (RCA, for short), for the amount of P11,500.00 per month, payable on or before the 5th day of the incoming month.[5]

On December 9, 1967, the Marcelo Steel Corporation, invoking paragraph 5 of the mortgage contract,[6] filed a

motion praying that an order be issued directing and/or authorizing the Rice and Corn Administration (RCA) and all other business concerns holding offices at the Doña Petra Building to channel or pay directly to it the rents for the use of the building.[7]

On December 23, 1967, the respondent Judge of first instance issued the questioned order, the dispositive portion of which reads, as follows:

"AS PRAYED FOR, the Rice and Corn Administration and all other business concerns holding offices at the building known as 'Dona Petra Building', through their proper representative and the petitioners as well are ordered to channel or pay directly to herein respondent, Marcelo Steel Corporation, at its main office at Malabon, Rizal, the rents for the use of the said building, offices, and/or premises." [8]

The RCA filed a motion for the reconsideration of said order, praying that it be excluded therefrom, for the reasons that (a) the rents due Petra Farin had been assigned by her, with the conformity with the RCA, to Vidal A. Tan; (b) Petra Farin has an outstanding obligation with the RCA in the amount of P263,062.40, representing rice shortages incurred by her as a bonded warehouseman under contract with the RCA, which should be compensated with the rents due and may be due; and (c) the RCA was never given an opportunity to be heard on these matters.[9]

Petra and Benjamin Farin filed a similar motion for the reconsideration of the disputed order of December 23, 1967, alleging that (a) the lessees of the Doña Petra Building are not parties to the case and were not served with a copy of the motion of Marcelo Steel Corporation, filed on December 9, 1967, so that the Court has no jurisdiction over them; (b) Petra Farin has assigned a portion of the monthly rental due from RCA to Vidal A. Tan, who has acquired proprietary rights thereto; and (c) under the power of attorney provided for in the real estate mortgage contract, the rents collected shall be applied to the interest on the obligation, and the legality of the additional interest at the rate of 12% per annum of the total amount of the mortgage indebtedness in addition to the 12% annual interest being charged by the Marcelo Steel Corporation on said indebtedness is directly at issue in the case, so that to enforce the disputed portion of the real estate mortgage contract and allow the Marcelo Steel Corporation to collect rents and apply the same to the interests on the loan would be premature.[10]

The trial court denied both motions for reconsideration on April 3, 1968, and on April 17, 1968,[11] the RCA filed a second motion for reconsideration, insisting that the claim of Marcelo Steel Corporation for rents has no legal basis because even a mortgagee who has successfully foreclosed a mortgage is not entitled to the fruits and rents of the property during the one-year redemption period, and that Marcelo Steel Corporation, after it had chosen to foreclose the mortgage, cannot resort to the provision of the mortgage contract authorizing the mortgagee to collect and receive rents and to apply said amounts to the payment of the principal obligation and the interests thereon; and that no rents are due Petra Farin because she has an accountability with the RCA in the amount of P263,062.40, which amount should be compensated with the rents due.[12] No action appears to have been taken on this motion.

On May 10, 1968, Petra Farin filed an urgent ex parte motion to authorize the RCA to release the rentals corresponding to the months of December, 1967, January and February, 1968, amounting to P37,500.00 so as to enable her to make the necessary repairs on the air conditioning system of the Doña Petra Building, stating, among others, that "The RCA is ready, willing and able to release to the petitioners the rentals mentioned above." [13]

The respondent Judge granted the motion, saying:

"Considering the urgent ex-parte motion, etc. dated May 10, 1968 filed by the plaintiff, thru counsel, and finding the reasons alleged therein to be well-founded;

AS PRAYED FOR, the Rice and Corn Administration (RCA) is hereby authorized to deliver to the herein Petitioners their rentals for the use of portions of the Doña Petra Building corresponding to December, 1967; January & February, 1968, all amounting to P37,500.00, to enable the petitioners to forthwith effect the necessary repairs of the air-conditioning system of the said building Dona Petra Building. However, all succeeding rentals should be delivered to the Marcelo Steel Corporation as previously ordered in the order of December 23, 1967."[14]

On May 17, 1968, the RCA filed a motion to set aside the said order, claiming that the allegations contained in the motion dated May 10, 1968, that "The RCA is ready, willing and able to release to the petitioners the rentals mentioned above" is unauthorized and gratuitous, and the delivery of the withheld rentals to Petra R. Farin would defeat its claim without giving the corporation its day in court.[15] But, the trial court denied the motion, saying:

"Considering the motion to set aside the order of May 14, 1968, filed by the Rice and Corn Administration and finding the same to be without merit, the same is thereby DENIED. The records does not show any proof that the plaintiff, Petra Farin, is indebted to the aforesaid movant, RCA, as alleged in the said motion and assuming that the herein plaintiff is really indebted to the RCA, the records further does not show that a case has been filed against her for the payment of such obligation, and therefore, there is no apparent legal ground to hold the payment of the rentals due the plaintiff."[16]

On August 28, 1968, the RCA filed a motion to vacate the orders directing the RCA to pay rentals to Marcelo Steel Corporation, reiterating therein the grounds alleged in its motion for reconsideration dated January 19, 1968, and in its second motion for reconsideration dated April 17, 1968, which has remained unacted upon. In said motion, the RCA emphasized that it is not a party to the case; that it had been denied due process for lack of notice and the right to be heard; that compensation took place by operation of law pursuant to Art. 1286 of the Civil Code without the need of filing a case against Petra R. Farin, or a decision rendered against her for the payment of such obligation; and that the provisions of the Rules of Court permitting a judgment creditor to reach money or property in the hands of third persons like the RCA, all presuppose a final judgment, and not a mere interlocutory order.[17]

The motion was denied on December 19, 1968,[18] and when the RCA received a letter from counsel for the Marcelo Steel Corporation, dated January 2, 1969, requesting compliance with the order of December 23, 1967, and the payment of accrued rentals,[19] the petitioner instituted the present recourse.

Insofar as it recognized the right of the herein private respondent, Marcelo Steel Corporation, to collect and receive rentals from the lessees of the Doña Petra Building, the order of December 23, 1967 was within the competence of the respondent Judge, since the lessor-mortgagor, Petra Farin, had empowered the said corporation to collect and receive any interest, dividend, rents, profits or other income or benefit produced by or derived from the mortgaged property under the terms of the real estate mortgage contract executed by them. But, the respondent Judge exceeded his jurisdiction in ordering or compelling the lessees of the said building, the RCA among others, to pay the rentals to the respondent Corporation, without giving the lessees an opportunity to be heard. The said lessees are not parties to the case between the lessor and the Marcelo Steel Corporation. The RCA, in particular, was not furnished with a copy of the motion of the respondent Corporation, dated December 9, 1967, praying that an order be issued directing and/or authorizing the RCA and other lessees to channel or pay directly to the said corporation the rents for the use of the Doña Petra Building, so that the RCA was deprived of its day in court and precluded it from presenting the defenses that it has against the lessor which, in this case, are: (1) that the rents due to Petra Farin had been assigned by her to Vidal A. Tan, with the acquiescence of the RCA, who has acquired proprietary rights thereto and would be deprived of his property without due process of law; and (2) that the lessor Petra R. Farin has an outstanding obligation to the RCA in the amount of P263,062.40 which should be compensated with the rentals already due or may be due. The said order clearly violated the constitutional

provision against depriving a person of his property without due process of law.[20] While there may be rents due the lessor for the use of portions of the Dona Petra Building, otherwise there would be no claim of compensation, the collection of said rents should not be done in an arbitrary and illegal manner. Certain rules should be observed and justice accorded the parties whose property rights would be adversely affected thereby. Since the order of December 23, 1967 was issued in excess of jurisdiction, the said order is null and void and of no legal effect.

The respondent Judge also erred in denying the claim of the RCA that compensation of debts had taken place allegedly because "The records does not show any proof that the plaintiff is indebted to the aforesaid movant, RCA, as alleged in the said motion and assuming that the herein plaintiff is really indebted to the RCA, the records further does not show that a case has been filed against her, or a decision has been rendered against her for the payment of such obligation." Proof of the liquidation of a claim, in order that there be compensation of debts, is proper if such claim is disputed. But, if the claim is undisputed, as in the case at bar, the statement is sufficient and no other proof may be required. In the instant case, the claim of the RCA that Petra R. Farin has an outstanding obligation to the RCA in the amount of P263,062.40 which should be compensated against the rents already due or may be due, was raised by the RCA in its motion for the reconsideration of the order of December 23, 1967. A copy of said motion was duly furnished counsel for Petra R. Farin and although the said Petra R. Farin subsequently filed a similar motion for the reconsideration of the order of December 23, 1967, she did not dispute nor deny such claim. Neither did the Marcelo Steel Corporation dispute such claim of compensation in its opposition to the motion for the reconsideration of the order of December 23, 1967.[21] The silence of Petra R. Farin, although the declaration is such as naturally one to call for action or comment if not true, could be taken as an admission of the existence and validity of such a claim. Therefore, since the claim of the RCA is undisputed, proof of its liquidation is not necessary. At any rate, if the record is bereft of the proof mentioned by the respondent Judge of first instance, it is because the respondent Judge did not call for the submission of such proof. Had the respondent Judge issued an order calling for proof, the RCA would have presented sufficient evidence to the satisfaction of the court.

WHEREFORE, the petition is granted and the order issued on December 23, 1967 in Civil Case No. Q-9384 of the Court of First Instance of Rizal, Quezon City, Branch IV, entitled: "Petra R. Farin, et al., petitioners, versus Benito Macrohon, et al., respondents," as well as the orders dated April 3, 1968, May 14, 1968, and December 19, 1968, all affirming the said order of December 23, 1967, should be, as they are hereby, annulled and set aside. With costs against the respondent Marcelo Steel Corporation.

SO ORDERED.

Guerrero,[*] Abad Santos, and De Castro,**] JJ., concur.

Aquino, J., see concurrence below.

Barredo,***] (Chairman), J., did not take part.

[*] Mr. Justice Juvenal K. Guerrero, a member of the First Division, was designated to sit in the Second Division in lieu of Mr. Justice Antonio P. Barredo.

**] Mr. Justice Pacifico P. de Castro, a member of the First Division, was designated to sit in the Second Division.

***] Mr. Justice Antonio P. Barredo, took no part being the Solicitor General at the time.

[1] Rollo, p. 19.

[2] Id., p. 25.

[3] Id., p. 26.

[4] Id., p. 34.

[5] Id., p. 43.

[6] The said paragraph reads, as follows:

"5. That effective immediately upon the execution of this mortgage, the MORTGAGEE is hereby constituted and appointed attorney-in-fact of the MORTGAGOR with full power and authority to collect and receive any interests, dividends, rents, profits or other income or benefits produced by or derived from the mortgaged property, with-out, however, any responsibility on its part for its failure to do so, and apply such amounts collected and received in payment of the interest accruing on the obligation, of all expenses of whatever kind and nature incurred by the MORTGAGEE in connection with this mortgage, and on the principal obligation, in the order they are enumerated and all acts done in conformity with the power herein granted are hereby ratified."

[7] Rollo, p. 49.

[8] Id. p. 51.

[9] Id., p. 53.

[10] Id., p. 55.

[11] Id., p. 70.

[12] Id., p. 71.

[13] Id., p. 75.

[14] Id., p. 78.

[15] Id., p. 79.

[16] Id., p. 81.

[17] Id., p. 82.

[18] No. 22, Petition.

[19] Rollo, p. 88.

[20] Art. IV, Sec. 1, 1973 Constitution.

[21] Rollo, p. 61.

CONCURRING OPINION

AQUINO, J.:

I concur in the result and on the understanding that the trial court should hold a hearing to determine the merits of the claim of petitioner RCA that it is entitled to retain the rentals by way of compensation. RCA should be considered impleaded as a party in the case since it had already intervened therein.

The claim of Marcelo Steel Corporation on the rentals is based on the contractual stipulation and on article 2127 of the Civil Code which provides that the mortgage extends to the rents or income not yet received when the obligation falls due (See *Hijos de I. de la Rama vs. Betia*, 54 Phil. 991; *National Bank vs. Alejano*, 55 Phil. 811; *Afable vs. Belando*, 55 Phil. 64).

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