

**SPS. MANLING UY LIM AND DAVID SY LIM,
PLAINTIFFS-APPELLANTS, VS. FAR EAST BANK & TRUST CO.
(NOW BANK OF THE PHILIPPINE ISLANDS), THE REGISTER OF DEEDS
FOR QUEZON CITY AND THE EX...**

Ponente: REYES, JR., A. J.

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REYES, JR., A. J.:

Before the Court is an ordinary appeal on the 14 March 2003 Decision of the Regional Trial Court, National Capital Judicial Region, Branch 80, Quezon City (the “court a quo”) in Civil Case No. Q-98-36210 for Annulment of Mortgages, the dispositive portion of which reads that:

“Prescinding from the foregoing, plaintiffs’ complaint is dismissed for lack of merit. Likewise, the defendant bank’s counterclaim is dismissed for insufficiency of evidence.

SO ORDERED.”[1]

Culled from the assailed Decision, the facts of the case are as follows:

Plaintiff-appellant Manling Uy is the registered owner of three (3) parcels of land located in Quezon City, Metro Manila and covered by Transfer Certificates of Title Nos. 378192 (T-78951), 378194 (T-78953) and 378195 (T-78954), respectively of the Register of Deeds for Quezon City; on 25 April 1994, plaintiff-appellant with the consent of her husband, David Sy Lim, through a Special Power of Attorney, authorized Hammer Garments Corporation (“Hammer”) to execute a real estate mortgage on the afore-described properties as security for the credit facilities that Hammer obtained from defendant-appellee;[2] that on 06 May 1994, plaintiff-appellant as a third party mortgagor and through Hammer mortgaged the parcels of land in favor of defendant-appellee bank as security for certain credit accommodations the principal amount of which is Nine Million Eight Hundred Ninety Six Thousand & Three Hundred Eighty Pesos (P9,896,380.00) as evidenced by the Real Estate Mortgage notarized on 06 May 1994;[3] on or about July 1996, a second real estate mortgage was executed on the same properties to secure an additional loan of One Million and Seven Thousand Pesos (P1,007,000.00); as of 31 October 1997, the total indebtedness secured by the above-mentioned properties is Twenty Nine Million Five Hundred Fifty Nine Thousand One Hundred Thirty Two and 53/100 (P29,559,132.53) as shown by the demand letter sent to plaintiffs-appellants;[4] as a result of plaintiffs-appellants’ failure to settle the above mentioned amount, defendant-appellee bank proceeded with the foreclosure of the subject properties and ended up as the highest bidder of the same for the amount of Nineteen Million Seven Hundred Sixty Nine Thousand (P19,769,000.00) in the foreclosure sale dated 10 December 1997;[5] when plaintiffs-appellants made written demands dated 27 March 1998 and 03 April 1998, respectively, upon defendant-appellee to supply the former with the documents pertinent to the foreclosure sale, the latter directed the plaintiffs-appellants to secure said documents from the Registry of Deeds of Quezon City; due to defendant-appellee’s actions, plaintiffs-appellants claimed to have suffered pecuniary losses for which they claim nominal, moral and exemplary damages and attorney’s fees.

Traversing the allegations of the complaint, defendant-appellee in its Answer with Counterclaim, asserts that: under the Special Power of Attorney executed by plaintiff-appellant, the execution of a first and continuing real estate mortgage and continuing real estate mortgage to secure any of its/their renewal or extensions, and other existing or future obligations are both duly authorized thus the second real estate mortgage dated 18 July 1996 contracted by Hammer was authorized by plaintiff-appellant Manling Uy; that it did not refuse to render an accounting to plaintiffs-appellants as proper demands for payments were even made to both the borrower Hammer Garments and plaintiffs-appellants as evidenced by demand letters dated 28 October 1997 and 31 October 1997; that information on the actual amount due from borrower Hammer has been repeatedly relayed to plaintiffs-appellants as per Statement of Account dated 11 September 1998; and that plaintiffs-appellants in filing the instant case has compelled the defendant-appellee bank to hire the services of counsel to protect its interest.

After trial on the merits, the court a quo rendered the Assailed Decision which dismissed the case for lack of merit.[6]

Obviously dissatisfied, plaintiffs-appellants came to this Court via this ordinary appeal[7] ascribing the following errors:

I.

THE TRIAL COURT ERRED IN DISMISSING THE COMPLAINT.

II.

THE TRIAL COURT ERRED IN NOT RULING THAT PLAINTIFFS ARE ENTITLED TO THE MAIN RELIEFS PRAYED FOR, TO WIT: THE ANNULMENT OF THE MORTGAGES AND FORECLOSURE.

III.

THE TRIAL COURT ERRED IN NOT AWARDING DAMAGES TO PLAINTIFFS-APPELLANTS.

The gut questions to be resolved in this case are: (a) Was it contemplated by the principal, i.e. plaintiff-appellant Manling Uy Lim, in the Special Power of Attorney to authorize Hammer Garments Corporation to enter into a Continuing Real Estate Mortgage with defendant-appellee bank?; (b) What is the extent of the liability of an accommodation mortgagor?

Resolving the first issue, We concede to the findings of the court a quo that it was indeed contemplated by plaintiff-appellant Manling Uy Lim to authorize Hammer Corporation to enter into a continuing real estate mortgage with defendant-appellee bank.

An important task in contract interpretation is the ascertainment of the intention of the contracting parties which is accomplished by looking at the words they used to project that intention in their contract, i.e. all the words, not just a particular word or two, and words in context, not words standing alone. Indeed, Article 1374 of the Civil Code, states that “the various stipulations of a contract shall be interpreted together, attributing to the doubtful one that sense which may result from of them taken jointly.”[8]

Taking the foregoing rule into consideration, We defer to the findings of the court a quo on this issue. The Special Power of Attorney executed by plaintiffs-appellants in favor of Hammer on 25 April 1994 clearly states that:

“x x x to use/execute a first and continuing Real Estate Mortgage on the properties covered by Transfer Certificate of Title (TCT) Nos. 378192, 378194, 378195 of the Registry of Deeds of Quezon City to secure the credit facilities of HAMMER GARMENTS CORPORATION obtained from FAR EAST BANK AND TRUST COMPANY as well as any of its/their renewals or extensions, and other existing or future obligations of the Corporation in favor of FAR EAST BANK AND TRUST COMPANY, whether direct or indirect,

principal or secondary;" (Underscoring Ours)

Plaintiffs-appellants usage of the words "first and continuing Real Estate Mortgage", to Us, means that the authority given to Hammer covers the first mortgage dated 06 May 1994 in the amount of Nine Million Eight Hundred Ninety Six Thousand and Three Hundred Eighty Pesos (P9,896,380.00), which should have been drafted also as a continuing real estate mortgage that would secure future obligations of Hammer to the defendant-appellee bank. This is very clear from the subsequent clause in the Special Power of Attorney that says: "x x x to secure the credit facilities of HAMMER GARMENTS CORPORATION obtained from FAR EAST BANK AND TRUST COMPANY as well as any of its/their renewals or extensions, and other existing or future obligations x x x."

However, the first Real Estate Mortgage which reads that:

"That, for and in consideration of credit accommodations obtained from the MORTGAGEE, and to secure the payment of the same and those that may hereafter be obtained, the principal of all of which is hereby fixed at NINE MILLION EIGHT HUNDRED NINETY SIX THOUSAND & THREE HUNDRED EIGHTY PESOS (P9,896,380.00), Philippine Currency, as well as those that the MORTGAGEE may extend to the MORTGAGOR, including interest and expenses or any other obligation owing to the MORTGAGEE, whether direct or indirect, principal or secondary x x x"

was not crafted as a continuing mortgage meant to secure future advancements or loans extended to Hammer. There is the conspicuous absence of such qualifying or descriptive clauses, i.e. "to secure the payment of any and all obligations heretofore contracted/incurred and which may thereafter be contracted/incurred by the mortgagors" or "this Deed is intended to be a comprehensive and all security for all obligations that have been incurred and may hereinafter be incurred", that would have easily revealed the intention to constitute a continuing real estate mortgage.

Be that as it may, the richness of the intention of plaintiffs-appellants in executing the Special Power of Attorney is not lost to Us. She made it categorically and unequivocally clear that Hammer was authorized to enter into a continuing real estate mortgage to secure both the present and the future credit facilities that Hammer may obtain from defendant-appellee bank. Thus, it is the spirit of the Special Power of Attorney, not the various omissions committed in crafting the first Real Estate Mortgage, that should be controlling. Ineluctably, it should be concluded that, in this sense, the second Real Estate Mortgage dated 18 July 1996 for the amount of One Million and Seven Thousand Pesos (P1,007,000.00) can be considered as an extension of the "first and continuing" mortgage in favor of defendant-appellee bank which plaintiffs-appellants authorized Hammer to enter into.

With respect to the second issue which deals with the extent of plaintiffs-appellants' liability as an accommodation mortgagor, We are constrained to depart from the conclusion made by the court a quo when the complaint was dismissed for lack of merit.

It appears that the purchase price of the subject three (3) parcels of land during the auction sale conducted on 10 December 1997, where defendant-appellee bank was declared as the highest bidder, is Nineteen Million Seven Hundred Sixty Nine Pesos (P19,769,000.00).[9] According to defendant-appellee bank the total loan obligation secured by the real estate mortgages subject of foreclosure is Twenty Nine Million Five Hundred Fifty Nine Thousand One Hundred Thirty Two and 53/100 (P29,559,132.53).[10]

There is nothing in the records of the case that would show that the total loan obligation secured by real estate mortgages on plaintiffs-appellants' properties is indeed P29,599,132.53. Other than the two real estate mortgages which secured the principal loan obligations amounting to Ten Million Nine Hundred Three Thousand and Three Hundred Eighty Pesos (P10,903,380.00), defendant-appellee bank was unable to support its claim that the liability

secured had reached P29,599,132.53.

The extent of the liability of plaintiffs-appellants, being mere accommodation mortgagors, is only up to the loan value of their mortgaged property and not to the entire loan itself.[11] Assuming that the total loan obligations of Hammer had indeed escalated to P29,599,132.53, the liability of plaintiffs-appellants is limited only to the loan obligations secured by the two (2) real estate mortgages amounting to P10,903,380.00. Any loan extended to Hammer, exceeding the obligations secured by the real estate mortgages, pertains to Hammer alone; necessarily so, the extra judicial foreclosure proceedings should extend only up to the accommodation mortgagor's liability, and not a notch beyond that.

WHEREFORE, premises considered, the 14 March 2003 Assailed Decision of the court a quo is hereby VACATED AND SET ASIDE. The 10 December 1997 Foreclosure Sale and the Certificate of Sale issued pursuant thereto are hereby declared as NULL AND VOID, without prejudice, to the re-filing of a Petition for Extra judicial Foreclosure to the extent of the principal loan obligation (plus interests) secured by the Real Estate Mortgages, dated 06 May 1994 and 18 July 1996, respectively.

SO ORDERED.

Abdulwahid and Perlas-Bernabe, JJ., concur.

[1] Records, p. 336

[2] Records, p. 84-85

[3] Ibid., pp. 86-88

[4] Ibid., p. 92

[5] Ibid, pp. 93-94

[6] See footnote 1

[7] Records, pp. 337-338

[8] Chine Banking Corporation vs. Court of Appeals 265 SCRA 327 [1996]

[9] see footnote 5

[10] Records, p. 92

[11] Belo vs. Philippine National Bank, 353 SCRA 359 [2001]

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