

TOMAS R. NODA AND JOSELINA S. NODA, PLAINTIFFS-APPELLEES, VS. SOCIAL SECURITY SYSTEM, DEFENDANT-APPELLANT.

G.R. No. L-57834. November 12, 1981

Ponente: ABAD SANTOS, J.

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ABAD SANTOS, J.:

This is an appeal by the Social Security System (SSS) from the decision dated February 22, 1977, in Civil Case No. 23416 of the Court of First Instance of Rizal at Pasig (Branch XIX), the dispositive portion of which provides:

"WHEREFORE, the real estate mortgage in favor of the defendant Social Security System on the property of the plaintiffs Tomas Noda and Joselina Noda described in TCT No. 192096-Rizal is hereby cancelled. The defendant Provincial Sheriff of Rizal is ordered to cancel the encum-brance on the plaintiffs TCT No. 192096-Rizal."

Tomas R. Noda, as an employee of Squires Bingham & Co. ????ac., was an enrolled member of the Social Security System.

On October 17, 1967, the spouses Tomas R. Noda and Joselina S. Noda were granted a housing loan by the Social Security System in the amount of P47,900.00, payable in fifteen years, with interest at the rate of 6% per annum for the first P30,000.00 and 9% per annum for the amount in excess of P30,000.00.

The loan was secured by a mortgage on the spouses' 792 square meter lot in Marikina, Rizal (TCT No. 192096-Rizal). It was further secured by a mortgage redemption insurance policy, procured by the SSS on the life of its principal debtor, Tomas R. Noda.

The provisions of the insurance policy pertinent to this case are:

"ARTICLE III - INSURANCE BENEFITS -

Sec. 2. When and How Insurance Payable.

"The death benefit with respect to an insured Mortgagor is payable to the Cre-ditor upon receipt and approval of such proofs of death of the Mortgagor as may be required by the Subscribing Companies. The Creditor will apply to the account of the Mortgagor the full proceeds if such proceeds do not exceed the actual indebted-ness of the Mortgagor at the time of his death. If the proceeds exceed such indebtedness, a sufficient part of the pro-ceeds will first be applied to cancel such indebtedness, and the balance will be paid by the Creditor to the beneficiary of the Mortgagor as determined by the Creditor.

"The Subscribing Companies will have no responsibility with regard to the payment of policy proceeds to beneficiaries.

"The Creditor will obtain the required proofs of death whenever a claim arises. The Subscribing Companies will normally rely on the Creditor to process such proofs, but reserve the right to request inspection of them. The

Subscribing Companies will determine what proofs are required."

The loan was released to the spouses in three installments and the SSS Investment Accounts Department set the monthly amortization on the loan at P483.36, inclusive of the insurance premiums.

As to when the payment on the monthly amortization began, the appellant and the appellees differ. According to the appellant, payment started in September, 1968. The appellees, on the other hand, claim that when the last installment on the loan was released on July 18, 1968, the amortization and insurance premiums corresponding to the months of April to June 1968, were deducted from the amount released.

At any rate, before the last installment was released, misfortune visited the Nodas. On May 11, 1968, Tomas R. Noda suffered a serious cerebral thrombosis. He was unconscious for three months in the hospital. He revived but became a paralytic attached to a wheelchair.

On January 1, 1970, Noda as an SSS member was declared totally and permanently disabled by the medical department of the SSS. He received monthly disability benefits from the SSS.

Meanwhile, Mrs. Joselina Noda by whom he had twelve children (two were married and the rest were with the family) had to support the family single handedly, with her meager salary as an employee of the National Mental Hospital.

It should be mentioned that, as found by the court a quo, Mrs. Joselina Noda continued paying amortizations on the loan after Tomas Noda, her husband, was declared disabled. As of November 29, 1971, Mrs. Noda had paid the SSS, P7,463.27, equivalent to 17 monthly amortizations for July 1968 to November, 1969.

The court a quo also found that as early as 1967, Mrs. Jose-lina Noda inquired about the coverage of the mortgage redemption insurance policy (MRI), from Atty. Ernesto Duran, head of the SSS Real Estate Department. The latter replied that it covers death as well as permanent disability.

On November 17, 1969, Teofila Sapalicio, (Mrs. Noda's sister who at the time lived with the Nodas) sent a query to the "Action Line" column of the daily newspaper "The Manila Times," on the coverage of the mortgage redemption insurance policy for SSS members. Atty. Duran to whom the question was directed, answered that:

"x x x the SSS also has a Mortgage Redemption Insurance Program to cover the repayment of the balance of the loan in case the borrower dies or becomes permanently disabled. This MRI Program, however, became compulsory only effective January, 1965 so that all loans filed on or after January, 1965 are compulsorily covered by our MRI Program. Prior to January 1965, the MRI Program is on an optional basis. In other words, it is left to the choice of the borrower whether he will secure an MRI or not."

Parenthetically, it should be mentioned that the appellant only admits having answered Sapalicio's query and maintains that the Nodas cannot invoke its statement to Sapalicio.

On July 1, 1974, the Investment Accounts Department re-ceived a letter requesting, (in behalf of Mrs. Joselina Noda) that the mortgage redemption insurance be applied to their loan due to permanent total disability of her husband. This request was denied through the Manager of the Investment Accounts Department on the ground that permanent total disability is not covered by the MRI.

On July 17, 1974, the Investment Accounts Department re-ferred the Noda's account to the SSS Legal Department for fore-closure of the real estate mortgage due to default in the payment of their monthly amortization for 71 months covering April 1968 to June 30, 1974.

After two unanswered telegraphic notices to the Nodas, the SSS filed on April 7, 1976, an application with the

Provincial Sheriff of Rizal for foreclosure of the mortgage. Thereupon, the foreclosure sale was set for May 12, 1976. According to the SSS, the arrears of the spouses as of January 30, 1976 amounted to P47,239.00, exclusive of penalties for 86 months.

The Nodas reacted to the impending foreclosure by filing a complaint dated May 16, 1976, in the Court of First Instance of Rizal, Pasig (Branch XIX), against the SSS and the Provincial Sheriff of Rizal. The complaint (docketed therein as Civil Case No. 23416), sought to enjoin the defendants-appellants from foreclosing the mortgage and to have the same cancelled for the reason that the application of the mortgage redemption insurance on the loan balance had extinguished the mortgage.

In its answer with a counterclaim for moral damages and attorney's fees, the SSS invoked the terms of the mortgage redemption insurance policy. It contended that the only contingency covered therein is the death of the mortgagor-debtor; and that the policy does not apply to permanent disability. As to the pronouncements of the real estate department manager that the policy also covered permanent disability, it alleged that the same was an honest mistake and could not bind the SSS.

On February 22, 1977, the Court of First Instance decided the case in favor of the Noda spouses, on the question of "whether the SSS may be compelled to discharge the balance of Noda's mortgage loan obligation on the basis of Atty. Duran's representation to Mrs. Noda that her husband's MRI coverage embraced death as well as total permanent disability," or whether "the SSS is estopped to claim that Noda's MRI coverage did not include permanent total disability on account of the erroneous representation of the head of its Real Estate Department."

The court ruled that under Article 1431 of the Civil Code, estoppel in pais lies on the SSS. Article 1431 reads as follows: "Through estoppel, an admission or representation is rendered conclusive upon the person making it, and cannot be denied or disproved as against the person relying thereon." It held that the elements of estoppel are present in this case, thus:

"1) The SSS, through the head of its Real Estate Department - the department that entered into the mortgage contract with Noda - represented to Noda as early as 1967 that his MRI coverage included risk of death and permanent total disability (Exh. 1).

"2) Atty. E. Duran, who made the representation, was the head of the real estate department of the SSS. A man in his responsible position ought to have known, or should have taken due care to know, that it was not so. It is clear therefore that he made the representation through culpable negligence, i.e., he was negligent in failing to ascertain the actual MRI coverage for housing loan mortgagors of the SSS.

"3) Noda was ignorant of the scope of his MRI insurance coverage because the SSS did not furnish him with a copy of the MRI policy.

"4) Noda acted on the representation of the SSS by paying the required MRI premiums. He paid the monthly mortgage amortizations on his mortgage until the SSS declared him to have suffered total permanent disability on January 1, 1970."

The SSS appealed to the Court of Appeals but that court certified the case to Us since it involves pure question of law.

Before the parties' submission of their respective briefs, the appellees through counsel, filed a notice of the death of Tomas R. Noda and, subsequently, a motion for substitution of parties-appellees. The certificate of death attached to the records shows that Tomas R. Noda died on December 6, 1979, in Marikina, Rizal.

The basic question raised in this appeal is estoppel ? whether the SSS is precluded from claiming that the mortgage redemption insurance policy covers only death of the mortgagor debtor.

We do not consider that the utterances and representation of Atty. Duran to Mrs. Noda or to Teofila Sapalicio had placed the SSS in estoppel to claim that the MRI covers the risk of death alone.

As explained by the appellant SSS, the statement of Atty. Duran was made on the honest belief that the plan of the SSS to include permanent total disability within the coverage of the MRI would be approved by the Social Security Commission. As it turned out, the plan did not materialize because to include permanent disability would have required the borrowers to pay much higher premiums.

Apparently, what Atty. Duran disclosed was a mere plan which he mistakenly believed would be approved by the Social Security Commission.

In *Ramiro v. Graño*, (54 Phil. 744 [1930]), if the act, conduct or misrepresentation of the party sought to be estopped is due to ignorance founded on innocent mistake, estoppel will not arise.

Estoppel being a principle in equity, it is certainly not equitable to allow the Nodas to profit by such mistake.

In another light, it cannot be said that Atty. Duran as manager of the Real Estate Department, had by his utterances, made representation concerning a matter which was not known or could not have been known to the appellees. This notwithstanding that as claimed by the appellees they were not parties to the MRI contract or that they were not furnished a copy there-of.

The MRI policy appears to be an integral part of the contract of mortgage to which the Nodas were parties. They knew that they were the beneficiaries of the policy. And when the last installment of the loan was released and the monthly amortizations corresponding to the months of April to June 1968 were discounted, they knew that the amortizations included the corresponding month-ly premiums for the MRI policy.

It could thus be seen that at the very start of their transactions with the SSS, the Nodas had notice of facts and circumstances which through diligence and ascertainment could have led them to know the exact risk coverage of the MRI policy as explicitly written therein.

But they failed to do so. They cannot now be heard to say that they were led to believe that the MRI policy extended to permanent total disability, when as it turned out what was told Mrs. Noda was a mere plan.

Neither can it be said that as otherwise contended by the appellees, the SSS had in effect ratified the statement of Atty. Duran by failing to rectify the "erroneous opinion" until as late as July 5, 1974. As explained by the appellant the SSS policy-making body was not given the chance to correct the error immediately because the matter never reached its attention. The opportunity came when in response to Mrs. Noda's request to apply the MRI policy on their loan, Atty. Benjamin B. Alamar, manager of the Investment Accounts Department, wrote her on July 5, 1974, categorically stating:

"That MRI is limited to and applied only in case of death of the principal borrower, and does not extend to death disability. Such being the case, the status of the real estate loan account remains unchanged."

Atty. Duran's statement cannot be the basis of estoppel because the Noda's did not actually rely on it. For estoppel to lie, the person who claims estoppel must have relied or acted on such representation. This is what Article 1431 of the Civil Code provides: "Through estoppel, an admission or representation is rendered conclusive upon the person making it, and cannot be denied or disproved as against the person relying thereon." Thus, in *KALALO vs. LUZ* (No. L-27782, July 31, 1970, 34 SCRA 337), it was held that an essential element of estoppel is that the person invoking it has been influenced and has relied on the representation or conduct of the person to be estopped.

But this is not the case of the appellees. For while Tomas R. Noda was declared disabled on January 1, 1970, it

was not until July 1, 1974, when Mrs. Noda asked that the MRI be applied to the loan due to the disability of her husband. This delayed action is not compatible with the claim that the Nodas had relied on the Duran statement.

We cannot sustain the decision of the court a quo. We, how-ever commiserate with the Noda family for the total disability which was suffered by Tomas and which eventually caused his death - an event which would have entitled the Nodas to the benefits of the MRI if their amortization payments had been current. Accordingly, We commend to the SSS a compassionate attitude. The SSS perhaps can write-off all claims due after December 6, 1979, when Tomas died and re-structure past dues in a liberal manner.

WHEREFORE, the decision of the court a quo is reversed and judgment is hereby rendered dismissing the complaint. No costs.

SO ORDERED.

Barredo, (Chairman), Concepcion, Jr., Fernandez, and De Castro, JJ., concur.

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