

**SPOUSES ENRIQUE M. BELO AND FLORENCIA G. BELO,
PETITIONERS, VS. PHILIPPINE NATIONAL BANK AND SPOUSES
MARCOS AND ARSENIA ESLABON, RESPONDENTS.**

G.R. No. 134330. March 01, 2001

Ponente: DE LEON, JR., J.

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DE LEON, JR., J.:

Before us is a petition for review on certiorari of the Decision[1] and Resolution[2] in CA-G.R. No. 53865 of the Court of Appeals[3] dated May 21, 1998 and June 29, 1998, respectively, which modified the Decision[4] dated April 30, 1996 of the Regional Trial Court of Roxas City, Branch 19 in a suit[5] for Declaration of Nullity of the Contract of Mortgage.

The facts are as follows:

Eduarda Belo owned an agricultural land with an area of six hundred sixty one thousand two hundred eighty eight (661,288) square meters located in Timpas, Panitan, Capiz, covered and described in Transfer Certificate of Title (TCT for brevity) No. T-7493. She leased a portion of the said tract of land to respondents spouses Marcos and Arsenia Eslabon in connection with the said spouses' sugar plantation business. The lease contract was effective for a period of seven (7) years at the rental rate of Seven Thousand Pesos (P7,000.00) per year.

To finance their business venture, respondents spouses Eslabon obtained a loan from respondent Philippine National Bank (PNB for brevity) secured by a real estate mortgage on their own four (4) residential houses located in Roxas City, as well as on the agricultural land owned by Eduarda Belo. The assent of Eduarda Belo to the mortgage was acquired through a special power of attorney which she executed in favor of respondent Marcos Eslabon on June 15, 1982.

Inasmuch as the respondents spouses Eslabon failed to pay their loan obligation, extrajudicial foreclosure proceedings against the mortgaged properties were instituted by respondent PNB. At the auction sale on June 10, 1991, respondent PNB was the highest bidder of the foreclosed properties at Four Hundred Forty Seven Thousand Six Hundred Thirty Two Pesos (P447,632.00).

In a letter dated August 28, 1991, respondent PNB appraised Eduarda Belo of the sale at public auction of her agricultural land on June 10, 1991 as well as the registration of the Certificate of Sheriff's Sale in its favor on July 1, 1991, and the one-year period to redeem the land.

Meanwhile, Eduarda Belo sold her right of redemption to petitioners spouses Enrique and Florencia Belo under a deed of absolute sale of proprietary and redemption rights.

Before the expiration of the redemption period, petitioners spouses Belo tendered payment for the redemption of the agricultural land in the amount of Four Hundred Eighty Four Thousand Four Hundred Eighty Two Pesos and Ninety Six Centavos (P484,482.96), which includes the bid price of respondent PNB, plus interest and expenses as provided under Act No. 3135.

However, respondent PNB rejected the tender of payment of petitioners spouses Belo. It contended that the redemption price should be the total claim of the bank on the date of the auction sale and custody of property plus charges accrued and interests amounting to Two Million Seven Hundred Seventy Nine Thousand Nine Hundred Seventy Eight and Seventy Two Centavos (P2,779,978.72).[6] Petitioners spouses disagreed and refused to pay the said total claim of respondent PNB.

On June 18, 1992, petitioners spouses Belo initiated in the Regional Trial Court of Roxas City, Civil Case No. V-6182 which is an action for declaration of nullity of mortgage, with an alternative cause of action, in the event that the accommodation mortgage be held to be valid, to compel respondent PNB to accept the redemption price tendered by petitioners spouses Belo which is based on the winning bid price of respondent PNB in the extrajudicial foreclosure in the amount of Four Hundred Forty Seven Thousand Six Hundred Thirty Two Pesos (P447,632.00) plus interest and expenses.

In its Answer, respondent PNB raised, among others, the following defenses, to wit:

x x x

- In all loan contracts granted and mortgage contracts executed under the 1975 Revised Charter (PD 694, as amended), the proper rate of interest to be charged during the redemption period is the rate specified in the mortgage contract based on Sec. 25[7] of PD 694 and the mortgage contract which incorporates by reference the provisions of the PNB Charters. Additionally, under Sec. 78 of the General Banking Act (RA No. 337, as amended) made applicable to PNB pursuant to Sec. 38 of PD No. 694, the rate of interest collectible during the redemption period is the rate specified in the mortgage contract.

- Since plaintiffs failed to tender and pay the required amount for redemption of the property under the provisions of the General Banking Act, no redemption was validly effected;[8]

x x x

After trial on the merits, the trial court rendered its Decision dated April 30, 1996 granting the alternative cause of action of spouses Belo, the decretal portion of which reads:

WHEREFORE, in view of all the foregoing, judgment is hereby rendered in favor of plaintiffs Spouses Enrique M. Belo and Florencia G. Belo and against defendants Philippine National Bank and Spouses Marcos and Arsenia Eslabon:

- Making the injunction issued by the court permanent, insofar as the property of Eduarda Belo covered by Transfer Certificate of Title No. T-7493 is concerned;

- Ordering defendant Philippine National Bank to allow plaintiff Enrique M. Belo to redeem only Eduarda Belo's property situated in Brgy. Timpas, Panitan, Capiz, and covered by Transfer Certificate of Title No. T-7493 by paying only its bid price of P447,632.00, plus interest and other charges provided for in Section 30, Rule 39 of the Rules of Court, less the loan value, as originally appraised by said defendant Bank, of the foreclosed four (4) residential lots of defendants Spouses Marcos and Arsenia Eslabon; and

- Dismissing for lack of merit the respective counterclaims of defendants Philippine National Bank and spouses Marcos and Arsenia Eslabon.

With costs against defendants.

SO ORDERED.[9]

Dissatisfied with the foregoing judgment of the trial court, respondent PNB appealed to the Court of Appeals. In its Decision rendered on May 21, 1998, the appellate court, while upholding the decision of the trial court on the

validity of the real estate mortgage on Eduarda Belo's property, the extrajudicial foreclosure and the public auction sale, modified the trial court's finding on the appropriate redemption price by ruling that the petitioners spouses Belo should pay the entire amount due to PNB under the mortgage deed at the time of the foreclosure sale plus interest, costs and expenses.[10]

Petitioners spouses Belo sought reconsideration[11] of the said Decision but the same was denied by the appellate court in its Resolution promulgated on June 29, 1998, ratiocinating, thus:

Once more, the Court shies away from declaring the nullity of the mortgage contract obligating Eduarda Belo as co-mortgagor, considering that it has not been sufficiently established that Eduarda Belo's assent to the special power of attorney and to the mortgage contract was tainted by any vitiating cause. Moreover, in tendering an offer to redeem the property (Exhibit "20", p. 602 Record) after its extrajudicial foreclosure, she has thereby admitted the validity of the mortgage, as well as the transactions leading to its inception. Eduarda Belo, and the appellees as mere assignees of Eduarda's right to redeem the property, are therefore estopped from questioning the efficacy of the mortgage and its subsequent foreclosure.[12]

The appellate court further declared that petitioners spouses Belo are obligated to pay the total bank's claim representing the redemption price for the foreclosed properties, as provided by Section 25 of P.D. No. 694, holding that:

On the other hand, the court's ruling that the appellees, being the assignee of the right of repurchase of Eduarda Belo, were bound by the redemption price as provided by Section 25 of P.D. 694, stands. The attack on the constitutionality of Section 25 of P.D. 694 cannot be allowed, as the High Court, in previous instances, (*Dulay v. Carriaga*, 123 SCRA 794 [1983]; *Philippine National Bank v. Remigio*, 231 SCRA 362 [1994]) has regarded the said provision of law with respect, using the same in determining the proper redemption price in foreclosure of mortgages involving the PNB as mortgagee.

The terms of the said provision are quite clear and leave no room for qualification, as the appellees would have us rule. The said rule, as amended, makes no specific distinction as to assignees or transferees of the mortgagor of his redemptive right. In the absence of such distinction by the law, the Court cannot make a distinction. As admitted assignees of Eduarda Belo's right of redemption, the appellees succeed to the precise right of Eduarda including all conditions attendant to such right.

Moreover, the indivisible character of a contract of mortgage (Article 2089, Civil Code) will extend to apply in the redemption stage of the mortgage.

As we have previously remarked, Section 25 of P.D. 694 is a sanctioned deviation from the rule embodied in Rule 39, Section 30 of the Rules of Court, and is a special protection given to government lending institutions, particularly, the Philippine National Bank. (*Dulay v. Carriaga*, supra)[13]

Hence, the instant petition.

During the oral argument, petitioners, through counsel, Atty. Enrique M. Belo, agreed to limit the assignment of errors to the following:

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II.

THE COURT OF APPEALS ERRED IN NOT REVERSING THE TRIAL COURT ON THE BASIS OF THE ASSIGNMENT OF ERRORS ALLEGED BY PETITIONERS IN THEIR BRIEF:

(1)

THAT THE SPECIAL POWER OF ATTORNEY EXECUTED BY EDUARDA BELO IN FAVOR OF RESPONDENT ESLABON WAS NULL AND VOID;

(2)

THAT THE REAL ESTATE MORTGAGE EXECUTED BY RESPONDENT MARCOS ESLABON UNDER SAID INVALID SPECIAL POWER OF ATTORNEY IS ALSO NULL AND VOID;

III.

THE COURT OF APPEALS ERRED IN NOT HOLDING THAT RESPONDENT PNB ACTED IN BAD FAITH AND CONNIVED WITH RESPONDENTS-DEBTORS ESLABONS TO OBTAIN THE CONSENT OF EDUARDA BELO, PETITIONERS' PREDECESSOR, THROUGH FRAUD.

IV.

THE COURT OF APPEALS ERRED IN NOT HOLDING THAT RESPONDENT PNB WAS NEGLIGENT IN THE PERFORMANCE OF ITS DUTY AS COMMERCIAL MONEY LENDER.

V.

THE COURT OF APPEALS ERRED IN HOLDING THAT EDUARDA BELO, PETITIONERS' PREDECESSOR, HAD WAIVED THE RIGHT TO QUESTION THE LEGALITY OF THE ACCOMMODATION MORTGAGE.

VI.

THE COURT OF APPEALS ERRED IN REVERSING THE TRIAL COURT BY HOLDING THAT ON REDEMPTION, PETITIONERS SHOULD PAY THE ENTIRE CLAIM OF PNB AGAINST RESPONDENTS-DEBTORS ESLABONS.

VII.

THE COURT OF APPEALS ERRED IN NOT ORDERING THAT SHOULD PETITIONERS DECIDE TO PAY THE ENTIRE CLAIM OF RESPONDENT PNB AGAINST THE RESPONDENTS-DEBTORS ESLABONS, PETITIONERS SHALL SUCCEED TO ALL THE RIGHTS OF RESPONDENT PNB WITH THE RIGHT TO REIMBURSEMENT BY RESPONDENTS-DEBTORS, ESLABONS.

VIII.

THE COURT OF APPEALS ERRED IN NOT HOLDING THAT SHOULD PETITIONERS DECIDE NOT TO EXERCISE THEIR RIGHT OF REDEMPTION, PETITIONERS SHALL BE ENTITLED TO THE VALUE OF THEIR IMPROVEMENTS MADE IN GOOD FAITH AND FOR THE REAL ESTATE TAX DUE PRIOR TO THE FORECLOSURE SALE.[14]

Petitioners challenge the appreciation of the facts of the appellate court, pointing out the following facts which the appellate court allegedly failed to fully interpret and appreciate:

- That respondent PNB in its Answer admitted that Eduarda Belo was merely an accommodation mortgagor and that she has no personal liability to respondent PNB.

x x x

- That the PNB Special Power of Attorney (SPA) Form No. 74 (Exh. "D") used to bind Eduarda Belo as accommodation mortgagor authorized the agent Eslabons to borrow and mortgage her agricultural land for her (Eduarda Belo) use and benefit. Instead, said PNB SPA Form No. 74 was used by debtors Eslabons and PNB to bind Eduarda Belo as accommodation mortgagor for the crop loan extended by PNB to the Eslabons.

- That the said PNB SPA Form No. 74 was signed by Eduarda Belo in blank, without specifying the amount of the loan to be granted by respondent PNB to the respondents-debtors Eslabons upon assurance by the PNB manager that the SPA was merely a formality and that the bank will not lend beyond the value of the four (4) [Roxas City] residential lots located in Roxas City mortgaged by respondents-debtors Eslabons (see Exhibit "D"; Eduarda Belo's deposition, Exhibit "V", pp. 7 to 24).

- That PNB did not advise Eduarda Belo of the amount of the loan granted to the Eslabons, did not make demands upon her for payment, did not advise her of Eslabons' default. The pre-auction sale notice intended for Eduarda Belo was addressed and delivered to the address of the debtors Eslabons residence at Baybay, Roxas City, not to the Belo Family House which is the residence of Eduarda Belo located in the heart of Roxas City. The trial court stated in its Decision that the PNB witness Miss Ignacio "admitted that through oversight, no demand letters were sent to Eduarda Belo, the accommodation mortgagor" (see p. 7, RTC Decision).

x x x

- As an agreed fact stated in the Pre-Trial Order of the Regional Trial Court, the loan which was unpaid at the time of the extrajudicial foreclosure sale was only P789,897.00.

x x x

- That herein petitioners Spouses Belo in making the tender to redeem Eduarda Belo's agricultural land expressly reserved the right to question the legality of the accommodation mortgage in the event that said tender to redeem was rejected by PNB (Exh. "I").[15]

Petitioners present basically two (2) issues before this Court. First, whether or not the Special Power of Attorney (SPA for brevity), the real estate mortgage contract, the foreclosure proceedings and the subsequent auction sale involving Eduarda Belo's property are valid. Second, assuming they are valid, whether or not the petitioners are required to pay, as redemption price, the entire claim of respondent PNB in the amount of P2,779,978.72 as of the date of the public auction sale on June 10, 1991.

On the first issue, the petitioners contend that the SPA is void for the reason that the amount for which the spouses Eslabon are authorized to borrow from respondent bank was unlimited; and that, while the SPA states that the amount loaned is for the benefit of Eduarda Belo, it was in fact used for the benefit of the respondents spouses Eslabon. For the said reasons petitioners contend that the mortgage contract lacks valid consent, object and consideration; that it violates a concept in the law of agency which provides that the contract entered into by the agent must always be for the benefit of the principal; and, that it does not express the true intent of the parties.

The subject SPA, the real estate mortgage contract, the foreclosure proceedings and the subsequent auction sale of Eduarda Belo's property are valid and legal.

First, the validity of the SPA and the mortgage contract cannot anymore be assailed due to petitioners' failure to appeal the same after the trial court rendered its decision affirming their validity. After the trial court rendered its decision granting petitioners their alternative cause of action, i.e., that they can redeem the subject property on the basis of the winning bid price of respondent PNB, petitioners did not anymore bother to appeal that decision on their first cause of action. If they felt aggrieved by the trial court's decision upholding the validity of the said two (2) documents, then they should have also partially appealed therefrom but they did not. It is an abuse of legal remedies for petitioners to belatedly pursue a claim that was settled with finality due to their own shortcoming. As held in *Caliguia v. National Labor Relations Commission*,^[16] where a party did not appeal from the Labor Arbiter's decision denying claims for actual, moral and exemplary damages and instead moved for immediate execution, the decision then became final as to him and by asking for its execution, he was estopped from relitigating his claims for damages.

Second, well-entrenched is the rule that the findings of trial courts which are factual in nature, especially when affirmed by the Court of Appeals, deserve to be respected and affirmed by the Supreme Court, provided it is supported by substantial evidence.[17] The finding of facts of the trial court to the effect that Eduarda Belo was not induced by the manager of respondent PNB but instead that she freely consented to the execution of the SPA is given the highest respect as it was affirmed by the appellate court. In the case at bar, the burden of proof was on the petitioners to prove or show that there was alleged inducement and misrepresentation by the manager of respondent PNB and the spouses Eslabon. Their allegation that Eduarda Belo only agreed to sign the SPA after she was assured that the spouses Eslabon would not borrow more than the value of their own four (4) residential lots in Roxas City was properly objected to by respondent PNB.[18] Also their contention that Eduarda Belo signed the SPA in blank was properly objected to by respondent PNB on the ground that the best evidence was the SPA. There is also no proof to sustain petitioners' allegation that respondent PNB acted in bad faith and connived with the debtors, respondents spouses Eslabon, to obtain Eduarda Belo's consent to the mortgage through fraud. Eduarda Belo very well knew that the respondents spouses Eslabon would use her property as additional mortgage collateral for loans inasmuch as the mortgage contract states that "the consideration of this mortgage is hereby initially fixed at P229,000.00." [19] The mortgage contract sufficiently apprises Eduarda Belo that the respondents spouses Eslabon can apply for more loans with her property as continuing additional security. If she found the said provision questionable, she should have complained immediately. Instead, almost ten (10) years had passed before she and the petitioners sought the annulment of the said contracts.

Third, after having gone through the records, this Court finds that the courts a quo did not err in holding that the SPA executed by Eduarda Belo in favor of the respondents spouses Eslabon and the Real Estate Mortgage executed by the respondents spouses in favor of respondent PNB are valid. It is stipulated in paragraph three (3) of the SPA that Eduarda Belo appointed the Eslabon spouses "to make, sign, execute and deliver any contract of mortgage or any other documents of whatever nature or kind which may be necessary or proper in connection with the loan herein mentioned, or with any loan which my attorney-in-fact may contract personally in his own name" [20] This portion of the SPA is quite relevant to the case at bar. This was the main reason why the SPA was executed in the first place inasmuch as Eduarda Belo consented to have her land mortgaged for the benefit of the respondents spouses Eslabon. The SPA was not meant to make her a co-obligor to the principal contract of loan between respondent PNB, as lender, and the spouses Eslabon, as borrowers. The accommodation real estate mortgage over her property, which was executed in favor of respondent PNB by the respondents spouses Eslabon, in their capacity as her attorneys-in-fact by virtue of her SPA, is merely an accessory contract.

Eduarda Belo consented to be an accommodation mortgagor in the sense that she signed the SPA to authorize respondents spouses Eslabons to execute a mortgage on her land. Petitioners themselves even acknowledged that the relation created by the SPA and the mortgage contract was merely that of mortgagor-mortgagee relationship. The SPA form of the PNB was utilized to authorize the spouses Eslabon to mortgage Eduarda Belo's land as additional collateral of the Eslabon spouses' loan from respondent PNB. Thus, the petitioners' contention that the SPA is void is untenable. Besides, Eduarda Belo benefited, in signing the SPA, in the sense that she was able to collect the rentals on her leased property from the Eslabons.[21]

An accommodation mortgage is not necessarily void simply because the accommodation mortgagor did not benefit from the same. The validity of an accommodation mortgage is allowed under Article 2085 of the New Civil Code which provides that "(t)hird persons who are not parties to the principal obligation may secure the latter by pledging or mortgaging their own property." An accommodation mortgagor, ordinarily, is not himself a recipient of the loan, otherwise that would be contrary to his designation as such. It is not always necessary that the accommodation mortgagor be appraised beforehand of the entire amount of the loan nor should it first be determined before the execution of the SPA for it has been held that:

"(real) mortgages given to secure future advancements are valid and legal contracts; that the amounts named as consideration in said contract do not limit the amount for which the mortgage may stand as security if from the four corners of the instrument the intent to secure future and other indebtedness can be gathered. A mortgage given to secure advancements is a continuing security and is not discharged by repayment of the amount named in the mortgage, until the full amount of the advancements are paid." [22]

Fourth, the courts a quo correctly held that the letter of Eduarda Belo addressed to respondent PNB manifesting her intent to redeem the property is a waiver of her right to question the validity of the SPA and the mortgage contract as well as the foreclosure and the sale of her subject property. Petitioners claim that her letter was not an offer to redeem as it was merely a declaration of her intention to redeem. Respondent PNB's answer to her letter would have carried certain legal effects. Had respondent PNB accepted her letter-offer, it would have surely bound the bank into accepting the redemption price offered by Eduarda Belo. If it was her opinion that her SPA and the mortgage contract were null and void, she would not have manifested her intent to redeem but instead questioned their validity before a court of justice. Her offer was a recognition on her part that the said contracts are valid and produced legal effects. Inasmuch as Eduarda Belo is estopped from questioning the validity of the contracts, her assignees who are the petitioners in the instant case, are likewise estopped from disputing the validity of her SPA, the accommodation real estate mortgage contract, the foreclosure proceedings, the auction sale and the Sheriff's Certificate of Sale.

The second issue pertains to the applicable law on redemption to the case at bar. Respondent PNB maintains that Section 25 of Presidential Decree No. 694 should apply, thus:

SEC. 25. Right of redemption of foreclosed property - Right of possession during redemption period. - Within one year from the registration of the foreclosure sale of real estate, the mortgagor shall have the right to redeem the property by paying all claims of the Bank against him on the date of the sale including all the costs and other expenses incurred by reason of the foreclosure sale and custody of the property, as well as charges and accrued interests. [23]

Additionally, respondent bank seeks the application to the case at bar of Section 78 of the General Banking Act, as amended by P.D. No. 1828, which states that -

.....In the event of foreclosure, whether judicially or extrajudicially, of any mortgage on real estate which is security for any loan granted before the passage of this Act or under the provisions of this Act, the mortgagor or debtor whose real property has been sold at public auction, judicially or extrajudicially, for the full or partial payment of an obligation to any bank, banking or credit institution, within the purview of this Act shall have the right, within one year after the sale of the real estate as a result of the foreclosure of the respective mortgage, to redeem the property by paying the amount fixed by the court in the order of execution, or the amount due under the mortgage deed, as the case may be, with interest thereon at the rate specified in the mortgage, and all the costs, and judicial and other expenses incurred by the bank or institution concerned by reason of the execution and sale and as a result of the custody of said property less the income received from the property. [24]

On the other hand, petitioners assert that only the amount of the winning bidder's purchase together with the interest thereon and on all other related expenses should be paid as redemption price in accordance with Section 6 of Act No. 3135 which provides that:

Sec. 6. In all cases in which an extrajudicial sale is made under the special power hereinbefore referred to, the debtor, his successor in interest or any judicial creditor or judgment creditor of said debtor, or any person having a lien on the property subsequent to the mortgage or deed of trust under which the property is sold, may redeem the same at any time within the term of one year from and after the date of the sale; and such redemption shall be governed by the provisions of sections four hundred and sixty-four to four hundred and

sixty six, inclusive, of the Code of Civil Procedure[25], in so far as these are not inconsistent with the provisions of this Act.

Section 28 of Rule 39 of the 1997 Revised Rules of Civil Procedure states that:

SEC. 28. Time and manner of, and amounts payable on, successive redemptions; notice to be given and filed. - The judgment obligor, or redemptioner, may redeem the property from the purchaser, at any time within one (1) year from the date of the registration of the certificate of sale, by paying the purchaser the amount of his purchase, within one per centum per month interest thereon in addition, up to the time of redemption, together with the amount of any assessments or taxes which the purchaser may have paid thereon after purchase, and interest on such last named amount at the same rate; and if the purchaser be also a creditor having a prior lien to that of the redemptioner, other than the judgment under which such purchase was made, the amount of such other lien, with interest. (*Italics supplied*)

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This Court finds the petitioners' position on that issue to be meritorious.

There is no doubt that Eduarda Belo, assignor of the petitioners, is an accommodation mortgagor. The Pre-trial Order and respondent PNB's brief contain a declaration of this fact. The dispute between the parties is whether Section 25 of P.D. No. 694 applies to an accommodation mortgagor, or her assignees. The said legal provision does not make a distinction between a debtor-mortgagor and an accommodation mortgagor as it uses the broad term "mortgagor". The appellate court thus ruled that the provision applies even to an accommodation mortgagor inasmuch as the law does not make any distinction. We disagree. Where a word used in a statute has both a restricted and a general meaning, the general must prevail over the restricted unless the nature of the subject matter or the context in which it is employed clearly indicates that the limited sense is intended.[26] It is presumed that the legislature intended exceptions to its language which would avoid absurd consequences of this character.[27] In the case at bar, the qualification to the general rule applies. The same provision of Section 25 of P.D. No. 694 provides that "the mortgagor shall have the right to redeem the property by paying all claims of the Bank against him". From said provision can be deduced that the mortgagor referred to by that law is one from whom the bank has a claim in the form of outstanding or unpaid loan; he is also called a borrower or debtor-mortgagor. On the other hand, respondent PNB has no claim against accommodation mortgagor Eduarda Belo inasmuch as she only mortgaged her property to accommodate the Eslabon spouses who are the loan borrowers of the PNB. The principal contract is the contract of loan between the Eslabon spouses, as borrowers/debtors, and the PNB as lender. The accommodation real estate mortgage (which secures the loan) is only an accessory contract. It is our view and we hold that the term "mortgagor" in Section 25 of P.D. No. 694 pertains only to a debtor-mortgagor and not to an accommodation mortgagor.

It is well settled that courts are not to give a statute a meaning that would lead to absurdities. If the words of a statute are susceptible of more than one meaning, the absurdity of the result of one construction is a strong argument against its adoption, and in favor of such sensible interpretation.[28] We test a law by its result. A law should not be interpreted so as not to cause an injustice. There are laws which are generally valid but may seem arbitrary when applied in a particular case because of its peculiar circumstances. We are not bound to apply them in slavish obedience to their language.[29]

The interpretation accorded by respondent PNB to Section 25 of P.D. No. 694 is unfair and unjust to accommodation mortgagors and their assignees. Forcing an accommodation mortgagor like Eduarda Belo to pay for what the principal debtors (Eslabon spouses) owe to respondent bank is to punish her for the accommodation and generosity she accorded to the Eslabon spouses who were then hard pressed for additional collaterals needed to secure their bank loan. Respondents PNB and spouses Eslabons very well knew that she merely consented to be

a mere accommodation mortgagor.

The circumstances of the case at bar also provide for ample reason why petitioners cannot be made to pay the entire liability of the principal debtors, Eslabon spouses, to respondent PNB.

The trial court found that respondent PNB's application for extrajudicial foreclosure and public auction sale of Eduarda Belo's mortgaged property[30] was filed under Act No. 3135, as amended by P.D. No. 385. The notice of extrajudicial sale, the Certificate of Sheriff's Sale, and the letter it sent to Eduarda Belo did not mention P. D. No. 694 as the basis for redemption. As aptly ruled by the trial court -

In fairness to these mortgagors, their successors-in-interest, or innocent purchasers for value of their redemption rights, PNB should have at least advised them that redemption would be governed by its Revised Charter or PD 69, and not by Act 3135 and the Rules of Court, as commonly practiced... This practice of defendant Bank is manifestly unfair and unjust to these redemptioners who are caught by surprise and usually taken aback by the enormous claims of the Bank not shown in the Notice of Extrajudicial Sale or the Certificate of Sheriff's Sale, as in this case.[31]

Moreover, the mortgage contract explicitly provides that "... the mortgagee may immediately foreclose this mortgage judicially in accordance with the Rules of Court or extrajudicially in accordance with Act No. 3135, as amended and Presidential Decree No. 385....."[32] Since the mortgage contract in this case is in the nature of a contract of adhesion as it was prepared solely by respondent, it has to be interpreted in favor of petitioners. The respondent bank however tries to renege on this contractual commitment by seeking refuge in the 1989 case of *Sy v. Court of Appeals*[33] wherein this Court ruled that the redemption price is equal to the total amount of indebtedness to the bank's claim inasmuch as Section 78 of the General Banking Act is an amendment to Section 6 of Act No. 3135, despite the fact that the extrajudicial foreclosure procedure followed by the PNB was explicitly under or in accordance with Act No. 3135.

In the 1996 case of *China Banking Corporation v. Court of Appeals*,[34] where the parties also stipulated that Act No. 3135 is the controlling law in case of foreclosure, this Court ruled that;

By invoking the said Act, there is no doubt that it must "govern the manner in which the sale and redemption shall be effected." Clearly, the fundamental principle that contracts are respected as the law between the contracting parties finds application in the present case, specially where they are not contrary to law, morals, good customs and public policy.[35]

More importantly, the ruling pronounced in *Sy v. Court of Appeals* and other cases,[36] that the General Banking Act and P.D. No. 694 shall prevail over Act No. 3135 with respect to the redemption price, does not apply here inasmuch as in the said cases the redemptioners were the debtors themselves or their assignees, and not an accommodation mortgagor or the latter's assignees such as in the case at bar. In the said cases, the debtor-mortgagors were required to pay as redemption price their entire liability to the bank inasmuch as they were obligated to pay their loan which is a principal obligation in the first place. On the other hand, accommodation mortgagors as such are not in anyway liable for the payment of the loan or principal obligation of the debtor/borrower. The liability of the accommodation mortgagors extends only up to the loan value of their mortgaged property and not to the entire loan itself. Hence, it is only just that they be allowed to redeem their mortgaged property by paying only the winning bid price thereof (plus interest thereon) at the public auction sale.

One wonders why respondent PNB invokes Act No. 3135 in its contracts without qualification and yet in the end appears to disregard the same when it finds its provisions unfavorable to it. This is unfair to the other contracting party who in good faith believes that respondent PNB would comply with the contractual agreement.

It is therefore our view and we hold that Section 78 of the General Banking Act, as amended by P.D. No. 1828, is

inapplicable to accommodation mortgagors in the redemption of their mortgaged properties.

While the petitioners, as assignees of Eduarda Belo, are not required to pay the entire claim of respondent PNB against the principal debtors, spouses Eslabon, they can only exercise their right of redemption with respect to the parcel of land belonging to Eduarda Belo, the accommodation mortgagor. Thus, they have to pay the bid price less the corresponding loan value of the foreclosed four (4) residential lots of the spouses Eslabon.

The respondent PNB contends that to allow petitioners to redeem only the property belonging to their assignor, Eduarda Belo, would violate the principle of indivisibility of mortgage contracts. We disagree.

Article 2089 of the Civil Code of the Philippines, provides that:

A pledge or mortgage is indivisible, even though the debt may be divided among the successors in interest of the debtor or of the creditor.

Therefore, the debtor's heir who has paid a part of the debt cannot ask for the proportionate extinguishment of the pledge or mortgage as the debt is not completely satisfied.

Neither can the creditor's heir who received his share of the debt return the pledge or cancel the mortgage, to the prejudice of the other heirs who have not been paid.

From these provisions is excepted the case in which, there being several things given in mortgage or pledge, each one of them guarantees only a determinate portion of the credit.

The debtor, in this case, shall have a right to the extinguishment of the pledge or mortgage as the portion of the debt for which each thing is specially answerable is satisfied.

There is no dispute that the mortgage on the four (4) parcels of land by the Eslabon spouses and the other mortgage on the property of Eduarda Belo both secure the loan obligation of respondents spouses Eslabon to respondent PNB. However, we are not persuaded by the contention of the respondent PNB that the indivisibility concept applies to the right of redemption of an accommodation mortgagor and her assignees. The jurisprudence in *Philippine National Bank v. Agudelo*[37] is enlightening to the case at bar, to wit:

x x x x x x x x

However, Paz Agudelo y Gonzaga (the principal) x x x gave her consent to the lien on lot No. 878 x x x. This acknowledgment, however, does not extend to lots Nos. 207 and 61... inasmuch as, although it is true that a mortgage is indivisible as to the contracting parties and as to their successors in interest (Article 1860, Civil code), it is not so with respect to a third person who did not take part in the constitution thereof either personally or through an agent x x x. Therefore, the only liability of the defendant-appellant Paz Agudelo y Gonzaga is that which arises from the aforesaid acknowledgment but only with respect to the lien and not to the principal obligation secured by the mortgage acknowledged by her to have been constituted on said lot No. 878 x x x. Such liability is not direct but a subsidiary one.[38]

x x x x x x x x

Wherefore, it is hereby held that the liability contracted by the aforesaid defendant-appellant Paz Agudelo y Gonzaga is merely subsidiary to that of Mauro A. Garrucho (the agent), limited to lot No. 87.

x x x x x x x x

From the wordings of the law, indivisibility arises only when there is a debt, that is, there is a debtor-creditor relationship. But, this relationship is wanting in the case at bar in the sense that petitioners are assignees of an accommodation mortgagor and not of a debtor-mortgagor. Hence, it is fair and logical to allow the petitioners to redeem only the property belonging to their assignor, Eduarda Belo.

With respect to the four (4) parcels of residential land belonging to the Eslabon spouses, petitioners - being total strangers to said lots - lack legal personality to redeem the same. Fair play and justice demand that the respondent PNB's interest of recovering its entire bank claim should not be at the expense of petitioners, as assignees of Eduarda Belo, who is not indebted to it. Besides, the letter[39] sent by respondent PNB to Eduarda Belo states that "your (Belo) mortgaged property/ies with PNB covered by TCT # T-7493 was/were sold at public auction". It further states that "You (Belo) have, therefore, one year from July 1, 1991 within which to redeem your mortgaged property/ies, should you desire to redeem it." Respondent PNB never mentioned that she was bound to redeem the entire mortgaged properties including the four (4) residential properties of the spouses Eslabon. The letter was explicit in mentioning Eduarda Belo's property only. From the said statement, there is then an admission on the part of respondent PNB that redemption only extends to the subject property of Eduarda Belo for the reason that the notice of the sale limited the redemption to said property.

WHEREFORE, the petition is partially granted in that the petitioners are hereby allowed to redeem only the property, covered and described in Transfer Certificate of Title No. T-7493-Capiz registered in the name of Eduarda Belo, by paying only the bid price less the corresponding loan value of the foreclosed four (4) residential lots of the respondents spouses Marcos and Arsenia Eslabon, consistent with the Decision of the Regional Trial Court of Roxas City in Civil Case No. V-6182.

SO ORDERED.

Bellosillo (Chairman), Mendoza, Quisumbing, and Buena, JJ., concur.

[1] Penned by Associate Justice Rodrigo V. Cosico, and concurred in by Associate Justices Salome A. Montoya, now Presiding Justice, and Delilah Vidallon-Magtolis; Rollo, pp. 102-115.

[2] Rollo, pp. 116-119.

[3] Eighth Division.

[4] Penned by Judge Sergio Pestano, Rollo, pp. 121-134.

[5] Civil Case No. V-6182; entitled "Spouses Enrique and Florencia Belo v. Philippine National Bank and Spouses Marcos and Arsenia Eslabon."

[6] Records, p. 208; Answer, p. 13; Exhibits "6" and "K" and referred to on page 3 of the Decision of the Court of Appeals, Rollo, p. 104.

[7] Section 25. Within one year from the registration of the foreclosure sale of real estate, the mortgagor shall have the right to redeem the property by paying all the claims of the Bank against him on the date of the sale including all the costs and other expenses incurred by reason of the foreclosure sale and custody of the property, as well as charges and accrued interests.

[8] Records, pp. 209-210; Answer, pp. 14-15.

[9] Records, p. 865; Decision, p. 14.

[10] Court of Appeals Decision, pp. 10-13.

[11] Motion for Reconsideration and Addendum thereto filed on June 3, 1998 and June 16, 1998, respectively.

[12] Court of Appeals Resolution, pp. 2-3.

[13] Court of Appeals Resolution, p. 3.

[14] Petition for Review; Rollo, pp. 32-33.

[15] Petition for Review on Certiorari, pp. 9-12; Rollo, pp. 44-47.

[16] 264 SCRA 110, 123 (1996).

[17] Francisco v. Court of Appeals, 319 SCRA 354, 362 (1999); Almeda v. Court of Appeals, 269 SCRA 643 (1997); Fuentes v. Court of Appeals, 268 SCRA 703 (1997).

[18] TSN, dated September 21, 1992, pp. 22-23.

[19] Records, p. 48.

[20] Exhibit "D"; Records, p. 46.

[21] TSN, dated September 21, 1992, p. 12.

[22] Mojica v. Court of Appeals, 201 SCRA 517, 522 (1991); Lim Julian v. Lutero, 49 Phil 703, 715 (1926).

[23] Italics supplied.

[24] Italics supplied.

[25] Now Rule 39, Section 28 of the 1997 Revised Rules of Civil Procedure.

[26] R. Agpalo, Statutory Construction, 142 (Rex Bookstore, 1995) citing Marcos v. Chief of Staff, AFP, 89 Phil. 246 (1951).

[27] R. Agpalo, Statutory Construction, 142 (Rex Bookstore, 1995) citing In re Allen, 2 Phil. 630 (1903).

[28] R. Agpalo, Statutory Construction, 142 (Rex Bookstore, 1995), pp. 114-115, citing Chartered Bank of India v. Imperial, 48 Phil. 931 (1921); In re Allen, 2 Phil. 630 (1903); People v. Rivera, 59 Phil. 236 (1933).

[29] Hermoso v. Court of Appeals, 300 SCRA 517, 539 (1998).

[30] Exhibit "6"; Records, p. 60.

[31] Regional Trial Court Decision, p. 12; Records, p. 863.

[32] Exhibit "E"; Records, p. 48.

[33] 172 SCRA 125 (1989).

[34] 265 SCRA 327, 342 (1996).

[35] Italics supplied.

[36] Philippine National Bank v. Remigio, 231 SCRA 362 (1994); Dulay v. Carriaga, 123 SCRA 794 (1983).

[37] 58 Phil. 655, 664 (1933).

[38] Italics supplied.

[39] Exhibit "G"; Rollo, p. 377.

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