SPOUSES ADELINA S.CUYCO AND FELICIANO U. CUYCO, PETITIONERS, VS. SPOUSES RENATO CUYCO AND FILIPINA CUYCO, RESPONDENTS.

G.R. NO. 168736. April 19, 2006

Ponente: YNARES-SANTIAGO, J.

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YNARES-SANTIAGO, J.:

This petition for review on certiorari assails the Decision[1] of the Court of Appeals (CA) in CA G.R. CV No. 62352 dated November 5, 2003 which modified the Decision[2] of the Regional Trial Court (RTC) of Quezon City, Branch 105 in Civil Case No. Q-97-32130 dated January 27, 1999, as well as the Resolution[3] dated June 28, 2005 denying the motion for reconsideration thereof.

The facts of the case are as follows:

Petitioners, spouses Adelina and Feliciano Cuyco, obtained a loan in the amount of P1,500,000.00 from respondents, spouses Renato and Filipina Cuyco, payable within one year at 18% interest per annum, and secured by a Real Estate Mortgage[4] over a parcel of land with improvements thereon situated in Cubao, Quezon City covered by TCT No. RT-43723 (188321).[5]

Subsequently, petitioners obtained additional loans from the respondents in the aggregate amount of P1,250,000.00, broken down as follows: (1) P150,000.00 on May 30, 1992; (2) P150,000.00 on July 1, 1992; (3) P500,000.00 on September 5, 1992; (4) P200,000.00 on October 29, 1992; and (5) P250,000.00 on January 13, 1993.[6]

Petitioners made payments amounting to P291,700.00,[7] but failed to settle their outstanding loan obligations. Thus, on September 10, 1997, respondents filed a complaint[8] for foreclosure of mortgage with the RTC of Quezon City, which was docketed as Civil Case No. Q-97-32130. They alleged that petitioners' loans were secured by the real estate mortgage; that as of August 31, 1997, their indebtedness amounted to P6,967,241.14, inclusive of the 18% interest compounded monthly; and that petitioners' refusal to settle the same entitles the respondents to foreclose the real estate mortgage.

Petitioners filed a motion to dismiss[9] on the ground that the complaint states no cause of action which was denied by the RTC[10] for lack of merit.

In their answer,[11] petitioners admitted their loan obligations but argued that only the original loan of P1,500,000.00 was secured by the real estate mortgage at 18% per annum and that there was no agreement that the same will be compounded monthly.

On January 27, 1999, the RTC rendered judgment[12] in favor of the respondents, the dispositive portion of which reads:

> WHEREFORE, in the light of the foregoing, the Court renders judgment on the Complaint in favor of the

> plaintiffs and hereby orders the defendants to pay to the Court or to the plaintiffs the amounts of P6,332,019.84, plus interest until fully paid, P25,000.00 as attorney's fees, and costs of suit, within a period of one hundred and twenty (120) days from the entry of judgment, and in case of default of such payment and upon proper motion, the property shall be ordered sold at public auction to satisfy the judgment. Further, defendants['] counterclaim is dismissed.
>
> SO ORDERED.[13]

Petitioners appealed to the CA reiterating their previous claim that only the amount of P1,500,000.00 was secured by the real estate mortgage.[14] They also contended that the RTC erred in ordering the foreclosure of the real estate mortgage to satisfy the total indebtedness of P6,532,019.84, as of January 10, 1999, plus interest until fully paid, and in imposing legal interest of 12% per annum on the stipulated interest of 18% from the filing of the case until fully paid.[15]

On November 5, 2003, the CA partially granted the petition and modified the RTC decision insofar as the amount of the loan obligations secured by the real estate mortgage. It held that by express intention of the parties, the real estate mortgage secured the original P1,500,000.00 loan and the subsequent loans of P150,000.00 and P500,000.00 obtained on July 1, 1992 and September 5, 1992, respectively. As regards the loans obtained on May 31, 1992, October 29, 1992 and January 13, 1993 in the amounts of P150,000.00, P200,000.00 and P250,000.00, respectively, the appellate tribunal held that the parties never intended the same to be secured by the real estate mortgage. The Court of Appeals also found that the trial court properly imposed 12% legal interest on the stipulated interest from the date of filing of the complaint. The dispositive portion of the Decision reads:

> WHEREFORE, the instant appeal is PARTIALLY GRANTED. The assailed decision of the Regional Trial Court of Quezon City, Branch 105, in Civil Case No. Q-97-32130 is hereby MODIFIED to read:
> "WHEREFORE, in the light of the foregoing, the Court renders judgment on the Complaint in favor of the plaintiffs and hereby orders the defendants to pay to the Court or to the plaintiffs the amount of P2,149,113.92[,] representing the total outstanding principal loan of the said defendants, plus the stipulated interest at the rate of 18% per annum accruing thereon until fully paid, within a period of one hundred and twenty days from the entry of judgment, and in case of default of such payment and upon motion, the property, subject of the real estate mortgage contract, shall be ordered sold at public auction in satisfaction of the mortgage debts.
>
> Defendants are further, ordered to pay the plaintiffs the following:
>
> - the legal interest at the rate of 12% per annum on the stipulated interest of 18% per annum, computed from the filing of the complaint until fully paid;
>
> - the sum of P25,000.00 as and for attorney's fees; and
>
> - he costs of suit."
>
> SO ORDERED.[16]

Hence, the instant petition for review on the sole issue:

WHETHER OR NOT PETITIONERS MUST PAY RESPONDENTS LEGAL INTEREST OF 12% PER ANNUM ON THE STIPULATED INTEREST OF 18% PER ANNUM, COMPUTED FROM THE FILING OF THE COMPLAINT UNTIL FULL PAID.[17]

Petitioners contend that the imposition of the 12% legal interest per annum on the stipulated interest of 18% per annum computed from the filing of the complaint until fully paid was not provided in the real estate mortgage contract, thus, the same has no legal basis.

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We are not persuaded.

While a contract is the law between the parties,[18] it is also settled that an existing law enters into and forms part of a valid contract without the need for the parties expressly making reference to it.[19] Thus, the lower courts correctly applied Article 2212 of the Civil Code as the basis for the imposition of the legal interest on the stipulated interest due. It reads:

> Art. 2212. Interest due shall earn legal interest from the time it is judicially demanded, although the obligation may be silent upon this point.

The foregoing provision has been incorporated in the comprehensive summary of existing rules on the computation of legal interest enunciated by the Court in Eastern Shipping Lines, Inc. v. Court of Appeals,[20] to wit:

> - When an obligation is breached, and it consists in the payment of a sum of money, i.e., a loan or forbearance of money, the interest due should be that which may have been stipulated in writing. Furthermore, the interest due shall itself earn legal interest from the time it is judicially demanded. In the absence of stipulation, the rate of interest shall be 12% per annum to be computed from default, i.e., from judicial or extrajudicial demand under and subject to the provisions of Article 1169 of the Civil Code.
>
> - When an obligation, not constituting a loan or forbearance of money, is breached, an interest on the amount of damages awarded may be imposed at the discretion of the court at the rate of 6% per annum. No interest, however, shall be adjudged on unliquidated claims or damages except when or until the demand can be established with reasonable certainty. Accordingly, where the demand is established with reasonable certainty, the interest shall begin to run from the time the claim is made judicially or extrajudicially (Art. 1169, Civil Code) but when such certainty cannot be so reasonably established at the time the demand is made, the interest shall begin to run only from the date the judgment of the court is made (at which time the quantification of damages may be deemed to have been reasonably ascertained). The actual base for the computation of legal interest shall, in any case, be on the amount finally adjudged.
>
> - When the judgment of the court awarding a sum of money becomes final and executory, the rate of legal interest, whether the case falls under paragraph 1 or paragraph 2, above, shall be 12% per annum from such finality until its satisfaction, this interim period being deemed to be by then an equivalent to a forbearance of credit. (Emphasis supplied)

In the case at bar, the evidence shows that petitioners obtained several loans from the respondent, some of which as held by the CA were secured by real estate mortgage and earned an interest of 18% per annum. Upon default thereof, respondents demanded payment from the petitioners by filing an action for foreclosure of the real estate mortgage. Clearly, the case falls under the rule stated in paragraph 1.

Applying the rules in the computation of interest, the principal amount of loans subject of the real estate mortgage must earn the stipulated interest of 18% per annum, which interest, as long as unpaid, also earns legal interest of 12% per annum, computed from the date of the filing of the complaint on September 10, 1997 until finality of the Court's Decision. Such interest is not due to stipulation but due to the mandate of the law[21] as embodied in Article 2212 of the Civil Code. From such date of finality, the total amount due shall earn interest of 12% per annum until satisfied.[22]

Certainly, the computed interest from the filing of the complaint on September 10, 1997 would no longer be true upon the finality of this Court's decision. In accordance with the rules laid down in Eastern Shipping Lines, Inc. v. Court of Appeals, we derive the following formula[23] for the RTC's guidance:

> TOTAL AMOUNT DUE = [principal + interest + interest on interest] - partial payments made

> Interest = principal x 18 % per annum x no. of years from due date until finality of judgment
>
> Interest on interest = Interest computed as of the filing of the complaint (September 10, 1997) x 12% x no. of years until finality of judgment
>
> Total amount due as of the date of finality of judgment will earn an interest of 12% per annum until fully paid.

In Rizal Commercial Banking Corporation v. Alfa RTW Manufacturing Corporation,[24] this Court held that the total amount due on the contracts of loan may be easily determined by the trial court through a simple mathematical computation based on the formula specified above. Mathematics is an exact science, the application of which needs no further proof from the parties.

As regards what loans were secured by the real estate mortgage, respondents contended that all five additional loans were intended by the parties to be secured by the real estate mortgage. Thus, the CA erred in ruling that only two of the five additional loans were secured by the real estate mortgage when the documents evidencing said loans would show at least three loans were secured by the real estate mortgage, namely: (1) P150,000.00 obtained on May 31, 1992; (2) P150,000.00 obtained on July 1, 1992; and (3) P500,000.00 obtained on September 5, 1992.[25]

In their Reply, petitioners alleged that their petition only raised the sole issue of interest on the interest due, thus, by not filing their own petition for review, respondents waived their privilege to bring matters for the Court's review that do not deal with the sole issue raised.

Procedurally, the appellate court in deciding the case shall consider only the assigned errors, however, it is equally settled that the Court is clothed with ample authority to review matters not assigned as errors in an appeal, if it finds that their consideration is necessary to arrive at a just disposition of the case.[26]

Moreover, as an exception to the rule that findings of facts of the CA are conclusive and binding on the Court,[27] an independent evaluation of facts may be done by it when the findings of facts are conflicting,[28] as in this case.

The RTC held that all the additional loans were secured by the real estate mortgage, thus:

> There is, therefore, a preponderance of evidence to show that the parties agreed that the additional loans would be against the mortgaged property. It is of no moment that the Deed of Mortgage (Exh. B) was not amended and thereafter annotated at the back of the title (Exh. C) because under Article 2125 of the Civil Code, if the instrument of mortgage is not recorded, the mortgage is nevertheless binding between the parties. It is extremely difficult for the court to perceive that the plaintiffs required the defendants to execute a mortgage on the first loan and thereafter fail to do so on the succeeding loans. Such contrary behavior is unlikely.[29]

The CA modified the RTC decision holding that:

> However, the real estate mortgage contract was supplemented by the express intention of the mortgagors (defendants-appellants) to secure the subsequent loans they obtained from the mortgagees (plaintiffs-appellees), on 01 July 1992, in the amount of P150,000.00, and on 05 September 1992, in the amount of P500,000.00. The mortgagors' (defendants-appellants) intention to secure a larger amount than that stated in the real estate mortgage contract was unmistakable in the acknowledgment receipts they issued on the said loans. The acknowledgment receipts read:
>
> "July 1, [1]992
>
> "Received from Mr. & Mrs. Renato Q. Cuyco PCIB Ck # 498243 in the amount of P150,000.00 July 1/92 as additional loan against mortgaged property TCT No. RT-43723 (188321) Q.C.
>
> (SGD) Adelina S. Cuyco"

> "Sept. 05/92
>
> "Received from Mr. R. Cuyco the amount of P500,000.00 (five hundred thousand) PCIB Ck # 468657 as additional loan from mortgage property TCT RT-43723.
>
> (SGD) Adelina S. Cuyco"

In such case, the specific amount mentioned in the real estate mortgage contract no longer controls. By express intention of the mortgagors (defendants-appellants) the real estate mortgage contract, as supplemented, secures the P1,500,000.00 loan obtained on 25 November 1991; the P150,000.00 loan obtained on 01 July 1992; and the P500,000.00 loan obtained on 05 September 1992. All these loans are subject to stipulated interest of 18% per annum provided in the real estate mortgage contract.

With respect to the other subsequent loans of the defendants-appellants in the amount of P150,000.00, obtained on 31 May 1992; in the amount of P200,000.00, obtained on 29 October 1992; and, in the amount of P250,000.00, obtained on 13 January 1993, nothing in the records remotely suggests that the mortgagor (defendants-appellants), likewise, intended the said loans to be secured by the real estate mortgage contract. Consequently, we rule that the trial court did err in declaring said loans to be secured by the real estate mortgage contract.[30]

As a general rule, a mortgage liability is usually limited to the amount mentioned in the contract.[31] However, the amounts named as consideration in a contract of mortgage 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. This stipulation is valid and binding between the parties and is known in American Jurisprudence as the "blanket mortgage clause," also known as a "dragnet clause." [32]

A "dragnet clause" operates as a convenience and accommodation to the borrowers as it makes available additional funds without their having to execute additional security documents, thereby saving time, travel, loan closing costs, costs of extra legal services, recording fees, et cetera. [33]

While a real estate mortgage may exceptionally secure future loans or advancements, these future debts must be sufficiently described in the mortgage contract. An obligation is not secured by a mortgage unless it comes fairly within the terms of the mortgage contract.[34]

The pertinent provisions of the November 26, 1991 real estate mortgage reads:

> That the MORTGAGOR is indebted unto the MORTGAGEE in the sum of ONE MILLION FIVE THOUSAND PESOS (sic) (1,500,000.00) Philippine Currency, receipt whereof is hereby acknowledged and confessed, payable within a period of one year, with interest at the rate of eighteen percent (18%) per annum;
>
> That for and in consideration of said indebtedness, the MORTGAGOR does hereby convey and deliver by way of MORTGAGE unto said MORTGAGEE, the latter's heirs and assigns, the following realty together with all the improvements thereon and situated at Cubao, Quezon City, and described as follows:
>
> x x x x
>
> PROVIDED HOWEVER, that should the MORTGAGOR duly pay or cause to be paid unto the MORTGAGEE or his heirs and assigns, the said indebtedness of ONE MILLION FIVE HUNDRED THOUSAND PESOS (1,500,000.00), Philippine Currency, together with the agreed interest thereon, within the agreed term of one year on a monthly basis then this MORTGAGE shall be discharged, and rendered of no force and effect, otherwise it shall subsist and be subject to foreclosure in the manner and form provided by law.

It is clear from a perusal of the aforequoted real estate mortgage that there is no stipulation that the mortgaged

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realty shall also secure future loans and advancements. Thus, what applies is the general rule above stated.

Even if the parties intended the additional loans of P150,000.00 obtained on May 30, 1992, P150,000.00 obtained on July 1, 1992, and P500,00.00 obtained on September 5, 1992 to be secured by the same real estate mortgage, as shown in the acknowledgement receipts, it is not sufficient in law to bind the realty for it was not made substantially in the form prescribed by law.

In order to constitute a legal mortgage, it must be executed in a public document, besides being recorded. A provision in a private document, although denominating the agreement as one of mortgage, cannot be considered as it is not susceptible of inscription in the property registry. A mortgage in legal form is not constituted by a private document, even if such mortgage be accompanied with delivery of possession of the mortgage property.[35] Besides, by express provisions of Section 127 of Act No. 496, a mortgage affecting land, whether registered under said Act or not registered at all, is not deemed to be sufficient in law nor may it be effective to encumber or bind the land unless made substantially in the form therein prescribed. It is required, among other things, that the document be signed by the mortgagor executing the same, in the presence of two witnesses, and acknowledged as his free act and deed before a notary public. A mortgage constituted by means of a private document obviously does not comply with such legal requirements.[36]

What the parties could have done in order to bind the realty for the additional loans was to execute a new real estate mortgage or to amend the old mortgage conformably with the form prescribed by the law. Failing to do so, the realty cannot be bound by such additional loans, which may be recovered by the respondents in an ordinary action for collection of sums of money.

Lastly, the CA held that to discharge the real estate mortgage, payment only of the principal and the stipulated interest of 18% per annum is sufficient as the mortgage document does not contain a stipulation that the legal interest on the stipulated interest due, attorney's fees, and costs of suit must be paid first before the same may be discharged.[37]

We do not agree.

Section 2, Rule 68 of the Rules of Court provides:

> SEC. 2. Judgment on foreclosure for payment or sale. - If upon the trial in such action the court shall find the facts set forth in the complaint to be true, it shall ascertain the amount due to the plaintiff upon the mortgage debt or obligation, including interest and other charges as approved by the court, and costs, and shall render judgment for the sum so found due and order that the same be paid to the court or to the judgment obligee within a period of not less than ninety (90) days nor more than one hundred twenty (120) days from the entry of judgment, and that in default of such payment the property shall be sold at public auction to satisfy the judgment. (Emphasis added)

Indeed, the above provision of the Rules of Court provides that the mortgaged property may be charged not only for the mortgage debt or obligation but also for the interest, other charges and costs approved by the court. Thus, to discharge the real estate mortgage, petitioners must pay the respondents (1) the total amount due, as computed in accordance with the formula indicated above, that is, the principal loan of P1,500,000.00, the stipulated interest of 18%, the interest on the stipulated interest due of 12% computed from the filing of the complaint until finality of the decision less partial payments made, (2) the 12% legal interest on the total amount due from finality until fully satisfied, (3) the reasonable attorney's fees of P25,000.00 and (4) the costs of suit, within the period specified by the Rules. Should the petitioners default in the payment thereof, the property shall be sold at public auction to satisfy the judgment.

WHEREFORE, in view of the foregoing, the Decision of the Court of Appeals in CA G.R. CV No. 62352 dated

November 5, 2003, which modified the Decision of the Regional Trial Court of Quezon City, Branch 105, in Civil Case No. Q-97-32130, is AFFIRMED with the MODIFICATIONS that petitioners are ordered to pay the respondents (1) the total amount due, as computed by the RTC in accordance with the formula specified above, (2) the legal interest of 12% per annum on the total amount due from such finality until fully paid, (3) the reasonable amount of P25,000.00 as attorney's fees, and (4) the costs of suit, within a period of not less than 90 days nor more than 120 days from the entry of judgment, and in case of default of such payment the property shall be sold at public auction to satisfy the judgment.

SO ORDERED.

Panganiban, C.J., (Chairperson), Austria-Martinez, Callejo, Sr., and Chico-Nazario, JJ., concur.

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[1] Rollo, pp. 19-31. Penned by Associate Justice Perlita J. Tria Tirona and concurred in by Associate Justices Portia Aliño-Hormachuelos and Rosalinda Asuncion-Vicente.

[2] Id. at 81-88. Penned by Judge Benedicto B. Ulep.

[3] Id. at 32-33.

[4] Id. at 48-49.

[5] Id. at 50-51.

[6] Id. at 53-56.

[7] Records, p. 21.

[8] Rollo, pp. 38-44.

[9] Id. at 58-63.

[10] Id. at 66.

[11] Id. at 76-80.

[12] Id. at 81-88.

[13] Id. at 88.

[14] Id. at 123.

[15] Id. at 127.

[16] Id. at 30-31.

[17] Id. at 13.

[18] Dela Torre v. Bicol University, G.R. No. 148632, August 31, 2005, 468 SCRA 542, 551.

[19] Escorpizo v. University of Baguio, 366 Phil. 166, 178 (1999).

[20] G.R. No. 97412, July 12, 1994, 234 SCRA 78, 95-97.

[21] De Cortes v. Venturanza, G.R. No. L-26058, October 28, 1977, 79 SCRA 709, 727.

[22] Tanay Recreation Center and Development Corporation v. Fausto, G.R. No. 140182, April 12, 2005, 455

SCRA 436, 454.

[23] See Tupaz IV v. Court of Appeals, G.R. No. 145578, November 18, 2005.

[24] 420 Phil. 702, 712 (2001).

[25] Rollo, p. 189.

[26] Hi-Tone Marketing Corporation v. Baikal Realty Corporation, G.R. No. 149992, August 20, 2004, 437 SCRA 121, 132.

[27] Commissioner of Internal Revenue v. Benguet Corporation, G.R. Nos. 134587 & 134588, July 8, 2005, 463 SCRA 28, 42.

[28] Tyson's Super Concrete Inc. v. Court of Appeals, G.R. No. 140081, June 23, 2005, 461 SCRA 69, 84.

[29] Rollo, p. 88.

[30] Id. at 27-28.

[31] Union Bank of the Philippines v. Court of Appeals, G.R. No. 164910, September 30, 2005, 471 SCRA 751, 758.

[32] Id.

[33] Id., citing Prudential Bank v. Alviar, G.R. No. 150197, July 28, 2005, 464 SCRA 336

[34] Philippine Bank of Communications v. Court of Appeals, 323 Phil. 297, 313 (1996).

[35] Peña, Registration of Land Titles and Deeds, 1994 Revised Edition, p. 273.

[36] Id.

[37] Rollo, p. 29.

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