

**SPOUSES BENEDICT AND MARICEL DY TECKLO, PETITIONERS, VS.
RURAL BANK OF PAMPLONA, INC. REPRESENTED BY ITS
PRESIDENT/MANAGER, JUAN LAS, RESPONDENT.**

G.R. No. 171201. June 18, 2010

Ponente: CARPIO, J.

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CARPIO, J.:

The Case

This is a petition for review[1] of the 17 May 2005 Decision[2] and the 14 December 2005 Resolution[3] of the Court of Appeals in CA-G.R. CV No. 59769. In its 17 May 2005 Decision, the Court of Appeals affirmed with modification the 22 May 1998 Decision[4] of the Regional Trial Court (Branch 61) of Naga City in Civil Case No. RTC 96-3521. In its 14 December 2005 Resolution, the Court of Appeals denied petitioners' motion for reconsideration.

The Antecedent Facts

On 20 January 1994, spouses Roberto and Maria Antonette Co obtained from respondent Rural Bank of Pamplona, Inc. a P100,000.00 loan[5] due in three months or on 20 April 1994. The loan was secured by a real estate mortgage[6] on a 262-square meter residential lot owned by spouses Co located in San Felipe, Naga City and covered by Transfer Certificate of Title (TCT) No. 24196.

The mortgage was registered in the Register of Deeds of Naga City on 21 January 1994 and duly annotated on the TCT of the mortgaged property as Entry No. 58182.[7]

One of the stipulations in the mortgage contract was that the mortgaged property would also answer for the future loans of the mortgagor. Pursuant to this provision, spouses Co obtained on 4 March 1994 a second loan[8] from respondent bank in the amount of P150,000.00 due in three months or on 2 June 1994.

Petitioners, spouses Benedict and Maricel Dy Tecklo, meanwhile instituted an action for collection of sum of money against spouses Co. The case, docketed as Civil Case No. 94-3161, was assigned to the Regional Trial Court (Branch 25) of Naga City. In the said case, petitioners obtained a writ of attachment on the mortgaged property of spouses Co. The notice of attachment was annotated on the TCT of the mortgaged property as Entry No. 58941.[9]

When the two loans remained unpaid after becoming due and demandable, respondent bank instituted extrajudicial foreclosure proceedings. In its 5 September 1994 petition for extrajudicial foreclosure, respondent bank sought the satisfaction solely of the first loan although the second loan had also become due.[10] At the public auction scheduled on 19 December 1994, respondent bank offered the winning bid of P142,000.00, which did not include the second loan.[11] The provisional certificate of sale to respondent bank was annotated on the TCT of the mortgaged property as Entry No. 60794.[12]

Petitioners then exercised the right of redemption as successors-in-interest of the judgment debtor. Stepping into the shoes of spouses Co, petitioners tendered on 9 August 1995 the amount of P155,769.50, based on the computation made by the Office of the Provincial Sheriff, as follows:

Bid price	
P142,000.00	
Interest on the bid price from	
December 19, 1994 to August 9, 1995	
at 1% per month	
10,934.00	
Expenses incurred in connection with the registration of the Provisional	
Certificate of Sale	
2,647.00	
Interest on the expenses	
188.50	
P155,769.50	

Respondent bank objected to the non-inclusion of the second loan. It also claimed that the applicable interest rate should be the rate fixed in the mortgage, which was 24% per annum plus 3% service charge per annum and 18% penalty per annum. However, the Provincial Sheriff insisted that the interest rate should only be 12% per annum. Respondent bank then sought annulment of the redemption, injunction, and damages in the Regional Trial Court (Branch 61) of Naga City docketed as Civil Case No. RTC 96-3521.

The Ruling of the Trial Court

The trial court ruled, among others, that the second loan, not having been annotated on the TCT of the mortgaged property, could not bind third persons such as petitioners. Applying the 24% per annum interest rate fixed in the mortgage, the trial court computed the redemption price as follows:

Bid price	
P142,000.00	
Interest rate on the bid price for 233 days	
22,057.33	
Expenses of registration of the Prov. Sale.....	
2,647.00	
Interest on the expenses for 211 days.....	
372.24	
P 167,076.57[13]	

In its 22 May 1998 Decision, the trial court dismissed respondent bank's complaint for annulment of redemption and ordered petitioners to pay respondent bank the deficiency of P11,307.07 on the redemption amount, to wit:

WHEREFORE, premises considered, this Civil Case No. RTC-96-3521 is hereby dismissed and defendants Dy Tecklos are hereby ordered to pay herein plaintiff the insufficiency of the redemption price in the amount of P11,307.07, and thereafter, upon receipt of said amount, the Rural Bank of Pamplona is also ordered to surrender to said defendants Dy Tecklos TCT No. 24196. No pronouncement as to costs.[14]

Respondent bank elevated the case to the Court of Appeals insisting that the foreclosed mortgage also secured the second loan of P150,000.00.

The Ruling of the Court of Appeals

The appellate court ruled that the redemption amount should have included the second loan even though it was not annotated on the TCT of the mortgaged property. In its 17 May 2005 Decision, the Court of Appeals affirmed the trial court's decision with the modification that petitioners pay respondent bank the deficiency amounting P204,407.18, with interest at the rate of 24% per annum from 22 May 1998 until fully paid, thus:

WHEREFORE, premises considered, in continued exercise of liberality in redemption, the dismissal of Civil Case No. RTC-96-3521 is AFFIRMED and defendants Dy Tecklo are hereby ordered to pay plaintiff the deficiency of the redemption price in the amount of P204,407.18 with interest at the rate of 24% per annum from May 22, 1998 until fully paid. Upon receipt of the full amount inclusive of interest the Rural Bank of Pamplona, Inc. is ordered to surrender to defendants-spouses Dy Tecklo the owner's duplicate of TCT No. 24196.[15]

Aggrieved, petitioners filed a motion for reconsideration, which the Court of Appeals denied. Hence, the present petition for review.

The Issue

The sole issue is whether the redemption amount includes the second loan in the amount of P150,000.00 even if it was not included in respondent bank's application for extrajudicial foreclosure.

The Court's Ruling

The Court finds the petition meritorious.

Petitioners pointed out that the second loan was not annotated as an additional loan on the TCT of the mortgaged property. Petitioners argued that the second loan was just a private contract between respondent bank and spouses Co, which could not bind third parties unless duly registered. Petitioners stressed that respondent bank's application for extrajudicial foreclosure referred solely to the first loan.

Respondent bank insisted that the mortgage secured not only the first loan but also future loans spouses Co might obtain from respondent bank. According to respondent bank, this was specifically provided in the mortgage contract. Respondent bank contended that petitioners, as redemptioner by virtue of the preliminary attachment they obtained against spouses Co, should assume all the debts secured by the mortgaged property.

The mortgage contract in this case contains the following blanket mortgage clause:

1. That as security for the payment of the loan or advance in the principal sum of ONE HUNDRED THOUSAND PESOS ONLY (P100,000.00) PESOS, Philippine Currency, and such other loans or advances already obtained and/or still to be obtained by the MORTGAGOR/S, either as MAKER/S, CO-MAKER/S, SURETY/IES OR GUARANTOR/S from the MORTGAGEE payable on the date/s stated in the corresponding

promissory note/s and subject to the payment of interest, other bank charges, and to other conditions mentioned thereon, x x x.[16] (Emphasis supplied)

A blanket mortgage clause, which makes available future loans without need of executing another set of security documents, has long been recognized in our jurisprudence. It is meant to save time, loan closing charges, additional legal services, recording fees, and other costs. A blanket mortgage clause is designed to lower the cost of loans to borrowers, at the same time making the business of lending more profitable to banks. Settled is the rule that mortgages securing future loans are valid and legal contracts.[17]

Presidential Decree No. 1529, otherwise known as the Property Registration Decree, mandates:

SEC. 51. Conveyance and other dealings by registered owner. - x x x x

The act of registration shall be the operative act to convey or affect the land insofar as third persons are concerned, and in all cases under this Decree, the registration shall be made in the office of the Register of Deeds for the province or city where the land lies.

SEC. 52. Constructive notice upon registration. - Every conveyance, mortgage, lease, lien, attachment, order, judgment, instrument, or entry affecting registered land shall, if registered, filed, or entered in the office of the Register of Deeds for the province or city where the land to which it relates lies, be constructive notice to all persons from the time of such registering, filing, or entering.

It is the act of registration which creates a constructive notice to the whole world and binds third persons. By definition, registration is the ministerial act by which a deed, contract, or instrument is inscribed in the records of the office of the Register of Deeds and annotated on the back of the TCT covering the land subject of the deed, contract, or instrument.[18]

A person dealing with registered land is not required to go beyond the TCT to determine the liabilities attaching to the property. He is only charged with notice of such burdens on the property as are duly annotated on the TCT. To require him to do more is to defeat one of the primary objects of the Torrens system.[19]

As to whether the second loan should have been annotated on the TCT of the mortgaged property in order to bind third parties, the case of *Tad-Y v. Philippine National Bank*[20] is in point. The case involved a mortgage contract containing a provision that future loans would also be secured by the mortgage. This Court ruled that since the mortgage contract containing the blanket mortgage clause was already annotated on the TCT of the mortgaged property, subsequent loans need not be separately annotated on the said TCT in order to bind third parties. We quote the pertinent portion of this Court's discussion in *Tad-Y v. Philippine National Bank*: [21]

Petitioner-appellant advances the argument that the latter loans should have also been noted on TCT 2417. But We believe there was no necessity for such a notation because it already appears in the said title that aside from the amount of P840 first borrowed by the mortgagors, other obligations would also be secured by the mortgage. As already stated, it was incumbent upon any subsequent mortgagee or encumbrancer of the property in question to have examined the books or records of the PNB, as first mortgagee, the credit standing of the debtors.[22]

Records of the present case show that the mortgage contract, containing the provision that future loans would also be secured by the mortgage, is duly annotated on the TCT of the mortgaged property. This constitutes sufficient notice to the world that the mortgage secures not only the first loan but also future loans the mortgagor may obtain from respondent bank. Applying the doctrine laid down in *Tad-Y v. Philippine National Bank*, [23] the second loan need not be separately annotated on the said TCT in order to bind third parties such as petitioners.

However, we note the curious fact that respondent bank's petition for extrajudicial foreclosure was solely for the

satisfaction of the first loan although the second loan had also become due and demandable.[24] In its Appellant's Brief filed in the Court of Appeals, respondent bank even admitted that the second loan was not included in its bid at the public auction sale. To quote from page 5 of the Appellant's Brief filed by respondent bank:

For failure to pay the first loan, the mortgage was foreclosed and the property covered by TCT No. 24196 was sold at public auction on December 19, 1994, for P142,000, which was the bid of the mortgagee bank. The bank did not include in its bid the second loan of P150,000.[25] (Emphasis supplied)

For its failure to include the second loan in its application for extrajudicial foreclosure as well as in its bid at the public auction sale, respondent bank is deemed to have waived its lien on the mortgaged property with respect to the second loan. Of course, respondent bank may still collect the unpaid second loan, and the interest thereon, in an ordinary collection suit before the right to collect prescribes.

After the foreclosure of the mortgaged property, the mortgage is extinguished and the purchaser at auction sale acquires the property free from such mortgage.[26] Any deficiency amount after foreclosure cannot constitute a continuing lien on the foreclosed property, but must be collected by the mortgagee-creditor in an ordinary action for collection. In this case, the second loan from the same mortgage deed is in the nature of a deficiency amount after foreclosure.

In order to effect redemption, the judgment debtor or his successor -in-interest need only pay the purchaser at the public auction sale the redemption amount composed of (1) the price which the purchaser at the public auction sale paid for the property and (2) the amount of any assessment or taxes which the purchaser may have paid on the property after the purchase, plus the applicable interest.[27] Respondent bank's demand that the second loan be added to the actual amount paid for the property at the public auction sale finds no basis in law or jurisprudence.

Coming now to the computation of the redemption amount, Section 78 of Republic Act No. 337, otherwise known as the General Banking Act, governs in cases where the mortgagee is a bank.[28] It provides:

Sec. 78. x x x 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. x x x (Emphasis supplied)

Applying Section 78 of the General Banking Act, the 24% per annum interest rate specified in the mortgage should apply. Thus, the redemption amount should be computed as follows:

P 142,000.00

=

winning bid at auction sale

P 2,647.00

=

registration expenses for
provisional certificate of sale
19 Dec. 1994 - 9 Aug. 1995
=
233 days from date of auction to
date of tender
12 Jan. 1995 - 9 Aug. 1995
=
211 days from date of
registration of provisional
sale to date of tender
 $P142,000.00 \times 24\% \times 233/360$
=
P 22,057.33

$2,647.00 \times 24\% \times 211/360$
=
372.35

P 22,429.68

Plus winning bid
142,000.00

Plus registration expenses
2,647.00

Total
P 167,076.68

After deducting petitioners' tender of P155,769.50, there is a deficiency of P11,307.18 on the redemption amount,

as computed above. Petitioners should thus pay respondent bank the deficiency amounting to P11,307.18, with interest at the rate of 24% per annum from 22 May 1998 until fully paid.

WHEREFORE, we GRANT the petition. We SET ASIDE the 17 May 2005 Decision and the 14 December 2005 Resolution of the Court of Appeals in CA-G.R. CV No. 59769. Petitioners Benedict and Maricel Dy Tecklo are ordered to pay respondent Rural Bank of Pamplona, Inc. the deficiency of P11,307.18 on the redemption amount, with interest at the rate of 24% per annum from 22 May 1998 until fully paid. Upon receipt of the full amount inclusive of interest, respondent Rural Bank of Pamplona, Inc. is ordered to surrender to petitioners Benedict and Maricel Dy Tecklo the owner's duplicate of TCT No. 24196.

No pronouncement as to costs.

SO ORDERED.

Nachura, Peralta, Abad, and Perez,[*] JJ., concur.

[*] Designated additional member per Special Order No. 842.

[1] Under Rule 45 of the Rules of Court.

[2] Rollo, pp. 22-29. Penned by Associate Justice Arcangelita M. Romilla-Lontok, with Associate Justices Rodrigo V. Cosico and Danilo B. Pine concurring.

[3] Id. at 31-32.

[4] Id. at 49-53.

[5] Id. at 40.

[6] Id. at 41.

[7] Records, pp. 143-144.

[8] Rollo, p. 42.

[9] Records, pp. 143-144.

[10] Id. at 168.

[11] CA rollo, p. 20

[12] Records, pp. 143-144.

[13] Rollo, p. 52.

[14] Id. at 52-53.

[15] Id. at 28.

[16] Id. at 41.

[17] *Lim Julian v. Lutero*, 49 Phil. 703 (1926); *Tad-Y v. Philippine National Bank*, 120 Phil. 806 (1964).

[18] *Agricultural Credit Cooperative Association of Hinigaran v. Yusay*, 107 Phil. 791 (1960).

[19] *Cañigas v. Tan Chuan Leong*, 110 Phil. 168 (1960).

[20] 120 Phil. 806 (1964).

[21] Id.

[22] Id. at 811.

[23] Id.

[24] Records, p. 168.

[25] CA rollo, p. 20.

[26] New Sampaguita Builders Construction, Inc. v. Philippine National Bank, G.R. No. 148753, 30 July 2004, 435 SCRA 565.

[27] Metropolitan Bank and Trust Company v. Spouses Tan, G.R. No. 178449, 17 October 2008, 569 SCRA 814.

[28] Heirs of Quisumbing v. PNB, G.R. No. 178242, 20 January 2009, 576 SCRA 762.

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