

BANK OF COMMERCE AND STEPHEN Z. TAALA, PETITIONERS, VS. SPOUSES ANDRES AND ELIZA FLORES, RESPONDENTS.

G.R. No. 174006. December 08, 2010

Ponente: NACHURA, J.

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NACHURA, J.:

Before the Court is a petition for review on certiorari under Rule 45 of the Rules of Court, assailing the Decision[1] dated February 28, 2006 and the Resolution[2] dated August 9, 2006 of the Court of Appeals (CA) in CA-G.R. CV No. 80362.

The facts of the case are as follows:

Respondents filed a case for specific performance against petitioners before the Regional Trial Court (RTC) of Quezon City, docketed as Civil Case No. Q-98-35425. Respondents are the registered owners of a condominium unit in Embassy Garden Homes, West Triangle, Quezon City, registered under Condominium Certificate of Title (CCT) No. 2130,[3] issued by the Register of Deeds of Quezon City.[4]

On October 22, 1993, respondents borrowed money from petitioner bank in the amount of Nine Hundred Thousand Pesos (P900,000.00). Respondents executed a Real Estate Mortgage[5] over the condominium unit as collateral, and the same was annotated at the back of CCT No. 2130.

On October 3, 1995, respondents again borrowed One Million One Hundred Thousand Pesos (P1,100,000.00) from petitioner bank, which was also secured by a mortgage over the same property annotated at the back of CCT No. 2130.[6]

On January 2, 1996, respondents paid One Million Eleven Thousand Five Hundred Fifty-Five Pesos and 54 centavos (P1,011,555.54), as evidenced by Official Receipt No. 147741[7] issued by petitioner bank. On the face of the receipt, it was written that the payment was "in full payment of the loan and interest." Respondents then asked petitioner bank to cancel the mortgage annotations on CCT No. 2130 since the loans secured by the real estate mortgage were already paid in full. However, the bank refused to cancel the same and demanded payment of Four Million Six Hundred Thirty-Three Thousand Nine Hundred Sixteen Pesos and Sixty-Seven Centavos (P 4,633,916.67), representing the outstanding obligation of respondents as of February 27, 1998. Respondents requested for an accounting which would explain how the said amount was arrived at. However, instead of heeding respondents' request, petitioner bank applied for extra-judicial foreclosure of the mortgages over the condominium unit. The public auction sale was scheduled on September 4, 1998. Petitioner Stephen Z. Taala, a notary public, was tasked to preside over the auction sale.[8]

Respondents filed suit with the RTC, Quezon City, assailing the validity of the foreclosure and auction sale of the property. They averred that the loans secured by the property had already been paid in full. Furthermore, they claimed that the Notice of Auction Sale by Notary Public[9] failed to comply with the provisions of Act No. 3135, as amended by Act No. 4118, requiring the publication and posting of the notice of auction sale in at least three

(3) public places in Quezon City.[10] Respondents likewise prayed for the payment of moral and exemplary damages, and attorney's fees, and for the issuance of a temporary restraining order and/or writ of preliminary injunction to enjoin the extra-judicial foreclosure sale of the property.[11]

On October 23, 1998, the RTC granted respondents' prayer for issuance of a writ of preliminary injunction, restraining petitioner bank from foreclosing on the mortgage.[12]

Petitioner bank admitted that there were only two (2) mortgage loans annotated at the back of CCT No. 2130, but denied that respondents had already fully settled their outstanding obligations with the bank.[13] It averred that several credit lines were granted to respondent Andres Flores by petitioner bank that were secured by promissory notes executed by him, and which were either increased or extended from time to time. The loan that was paid on January 2, 1996, in the amount of P1,011,555.54, was only one of his loans with the bank. There were remaining loans already due and demandable, and had not been paid by respondents despite repeated demands by petitioner bank. The remaining loans, although not availed of at the same time, were similarly secured by the subject real estate mortgage as provided in the continuing guaranty agreement therein.[14]

Petitioner bank alleged that respondents requested and were granted an increase in their Bills Discounted Line from Nine Hundred Thousand Pesos (P900,000.00) to Two Million Pesos (P2,000,000.00), which was secured by the same real estate mortgage on CCT No. 2130. However, the subject condominium unit commanded only a market value of One Million Seven Hundred Twenty-Three Thousand Six Hundred Pesos (P1,723,600.00), and a loan value of Nine Hundred Fifty-Nine Thousand Six Hundred Sixteen Pesos (P959,616.00). Since the market value of the condominium unit was lower than the combined loans, the parties agreed to fix the amount of the real estate mortgage at P1,100,000.00. Moreover, petitioner bank stressed that under the terms of the two real estate mortgages, future loans of respondents were also covered.[15]

On December 4, 2002, the RTC rendered a resolution,[16] the fallo of which reads:

FROM THE FOREGOING MILIEU, the present case for specific performance with damages and injunction filed by plaintiffs, Sps. Andres and Eliza Flores against defendants, Bank of Commerce and Stephen Z. Taala, is hereby DISMISSED. Likewise, the counterclaim filed by defendants, Bank of Commerce and Stephen Z. Taala against plaintiffs, Sps. Andres and Eliza Flores is DISMISSED for insufficiency of evidence.

SO ORDERED.[17]

In denying respondents' complaint for specific performance, the RTC ratiocinated that respondents' right of action hinged mainly on the veracity of their claim that they faithfully complied with their loan obligations and had fully paid them in January 1996. The RTC stated that the evidence submitted by petitioner bank, specifically the promissory notes and statement of account dated February 27, 1998, negated this contention. The RTC declared that respondents incurred other debts from petitioner bank, which must be paid first before they could be absolved of liability, and, consequently, demand the release of the mortgage. The RTC also struck down respondents' assertion that petitioner bank did not comply with the posting and publication requirements under Act No. 3135, as amended.

Respondents filed a motion for reconsideration, which was, however, denied by the RTC in a decision[18] dated August 8, 2003.

Aggrieved, respondents appealed to the CA.

Meanwhile, on March 25, 2004, the auction sale of the subject property was conducted, and petitioner bank was awarded the property, as the highest bidder.

On February 28, 2006, the CA rendered a Decision[19] reversing the decision and the resolution of the RTC. The dispositive portion of the CA Decision reads:

IN VIEW OF ALL THE FOREGOING, the instant appeal is GRANTED; the challenged Decision dated December 4, 2002, is REVERSED and SET ASIDE; and a new one entered:

(a) ordering the cancellation of the real estate mortgage annotations on the dorsal side of CCT No. 2130 of the Registry of Deeds of Quezon City;

(b) ordering appellee Bank to issue a corresponding release of mortgages to plaintiffs-appellants' CCT No. 2130;

(c) declaring null and void the challenged extra-judicial foreclosure and public auction sale held on March 25, 2004 together with the Certificate of Sale dated April 14, 2004 issued in favor of appellee Bank; and,

(d) appellees' counterclaims are ordered dismissed, for lack of sufficient basis therefor.

No costs.

SO ORDERED.[20]

The CA ratiocinated that the principal obligation or loan was already extinguished by the full payment thereof. Consequently, the real estate mortgages securing the principal obligation were also extinguished. A real estate mortgage, being an accessory contract, cannot survive without the principal obligation it secures. The CA also noted that the two mortgages were individually annotated at the back of CCT No. 2130. Thus, the CA opined that the individual annotations clearly indicated that the said mortgages were not meant to serve as a continuing guaranty for any future loan that respondents would obtain from petitioner bank.

Petitioners filed a motion for reconsideration. On August 9, 2006, the CA issued a Resolution[21] denying the same.

Hence, the instant petition.

The sole issue for resolution is whether the real estate mortgage over the subject condominium unit is a continuing guaranty for the future loans of respondent spouses despite the full payment of the principal loans annotated on the title of the subject property.

We resolve this issue in the affirmative.

The contested portion of the Deed of Real Estate Mortgage dated October 22, 1993 for the principal obligation of P900,000.00 and of the second one dated October 3, 1995 for the sum of P1,100,000.00, uniformly read:

WITNESSETH: That

for and in consideration of the credit accommodations granted by the MORTGAGEE [Bank of Commerce] to the MORTGAGOR [Andres Flores] and/or _____ hereby initially fixed at _____ PESOS: (P_____), Philippine Currency, and as security for the payment of the same, on demand or at maturity as the case may be, be the interest accruing thereon, the cost of collecting the same, the cost of keeping the mortgaged property(ies), of all amounts now owed or hereafter owing by the MORTGAGOR to the MORTGAGEE under this or separate instruments and agreements, or in respect of any bill, note, check, draft accepted, paid or discounted, or advances made and all other obligations to every kind already incurred or which may hereafter be incurred, for the use or accommodation of the MORTGAGOR, as well as the faithful performance of the terms and conditions of this mortgage and of the separate instruments and/or documents under which credits have been or may hereafter be advanced by the MORTGAGEE to the MORTGAGOR, including their renewals, extensions and substitutions, any and all of

which separate instruments and/or documents and their renewals, extensions and substitutions are hereunto incorporated and made integral parts hereof, the MORTGAGOR [Andres Flores] has transferred and conveyed, as by these presents it/he does hereby transfer and convey, by way of First Mortgage, to the MORTGAGEE [Bank of Commerce], its successors and assigns, all its/ his rights, title and interest to that parcel(s) of land, together with all the buildings and improvements now existing or which may hereafter be erected or constructed thereon, including all other rights or benefits annexed to or inherent therein now existing or which may hereafter exist, situated in Embassy Garden Homes, Quezon City, Philippines, and more particularly described in Original/Transfer Certificate(s) of Title No. CCT No. 2130 of the Registry of Deeds [of] Quezon City, as follows:

CCT No. 2130

Unit No. L-2, located on Building L, consisting of Ninety Five point Twenty (95.20) Square Meters, more or less, with Parking Space No. L-2.[22]

It is petitioner bank's contention that the said undertaking, stipulated in the Deed of Real Estate Mortgage dated October 22, 1993 and October 3, 1995, is a continuing guaranty meant to secure future debts or credit accommodations granted by petitioner bank in favor of respondents. On the other hand, respondents posit that, since they have already paid the loans secured by the real estate mortgages, the mortgage should not be foreclosed because it does not include future debts of the spouses or debts not annotated at the back of CCT No. 2130.

A continuing guaranty is a recognized exception to the rule that an action to foreclose a mortgage must be limited to the amount mentioned in the mortgage contract.[23] Under Article 2053 of the Civil Code, a guaranty may be given to secure even future debts, the amount of which may not be known at the time the guaranty is executed. This is the basis for contracts denominated as a continuing guaranty or suretyship. A continuing guaranty is not limited to a single transaction, but contemplates a future course of dealing, covering a series of transactions, generally for an indefinite time or until revoked. It is prospective in its operation and is generally intended to provide security with respect to future transactions within certain limits, and contemplates a succession of liabilities, for which, as they accrue, the guarantor becomes liable. In other words, a continuing guaranty is one that covers all transactions, including those arising in the future, which are within the description or contemplation of the contract of guaranty, until the expiration or termination thereof.[24]

A guaranty shall be construed as continuing when, by the terms thereof, it is evident that the object is to give a standing credit to the principal debtor to be used from time to time either indefinitely or until a certain period, especially if the right to recall the guaranty is expressly reserved. In other jurisdictions, it has been held that the use of particular words and expressions, such as payment of "any debt," "any indebtedness," "any deficiency," or "any sum," or the guaranty of "any transaction" or money to be furnished the principal debtor "at any time" or "on such time" that the principal debtor may require, has been construed to indicate a continuing guaranty.[25]

In the instant case, the language of the real estate mortgage unambiguously reveals that the security provided in the real estate mortgage is continuing in nature. Thus, it was intended as security for the payment of the loans annotated at the back of CCT No. 2130, and as security for all amounts that respondents may owe petitioner bank. It is well settled that mortgages given to secure future advance or loans are valid and legal contracts, and that the amounts named as consideration in said contracts 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.[26]

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 amounts of the advancements are paid.[27] Respondents' full payment of the loans annotated on the title of the property shall not effect the release of the mortgage because, by

the express terms of the mortgage, it was meant to secure all future debts of the spouses and such debts had been obtained and remain unpaid. Unless full payment is made by the spouses of all the amounts that they have incurred from petitioner bank, the property is burdened by the mortgage.

WHEREFORE, in view of the foregoing, the Decision dated February 28, 2006 and the Resolution dated August 9, 2006 of the Court of Appeals in CA-G.R. CV No. 80362 are hereby REVERSED and SET ASIDE. The decision of the Regional Trial Court dated December 4, 2002 is hereby REINSTATED.

SO ORDERED.

Carpio, (Chairperson), Peralta, Abad, and Mendoza, JJ., concur.

[1] Penned by Associate Justice Conrado M. Vasquez, Jr., with Associate Justices Mariano C. del Castillo (now a member of this Court) and Magdangal M. de Leon, concurring; rollo, pp. 26-37.

[2] Id. at 38-39.

[3] Records, p. 7.

[4] CA rollo, p. 88.

[5] Records, p. 87.

[6] Id. at 88.

[7] Id. at 89.

[8] Rollo, p. 27.

[9] Records, pp. 11-12.

[10] Rollo, pp. 27-28.

[11] Id.

[12] Id. at 28.

[13] Id. at 28.

[14] CA rollo, p. 89.

[15] Rollo, p. 28.

[16] Penned by Judge Percival Mandap Lopez; CA rollo, pp. 91-92.

[17] Id. at 92.

[18] Penned by Pairing Judge Demetrio B. Macapagal, Sr.; id. at 88-90.

[19] Supra note 1.

[20] Id. at 36-37.

[21] Supra note 2.

[22] Records, p. 88. (Emphasis supplied.)

[23] C & C Commercial Corp. v. Philippine National Bank, 256 Phil. 451, 463 (1989).

[24] Diño v. Court of Appeals, G.R. No. 89775, November 26, 1992, 216 SCRA 9, 17.

[25] Id. at 17-18.

[26] China Banking Corp. v. CA, 333 Phil. 158, 170 (1996).

[27] Id. at 172.

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