

**RAMONA RAMOS AND THE ESTATE OF LUIS T. RAMOS,
PETITIONERS, VS. PHILIPPINE NATIONAL BANK, OPAL PORTFOLIO
INVESTMENTS (SPV-AMC), INC. AND GOLDEN DRAGON STAR
EQUITIES, INC., RESPON...**

G.R. No. 178218. December 14, 2011

Ponente: LEONARDO-DE CASTRO, J.

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LEONARDO-DE CASTRO, J.:

Assailed in this Petition for Review on Certiorari [1] under Rule 45 of the Rules of Court are the Decision [2] dated November 8, 2006 and the Resolution [3] dated May 28, 2007 of the Court of Appeals in CA-G.R. CV No. 64360.

From the records of the case, the following facts emerge:

The Real Estate Mortgage

In 1973, Luis Ramos obtained a credit line under an agricultural loan account from the Philippine National Bank (PNB), Balayan Branch, for P83,000.00. [4] To secure the loan, the parties executed a Real Estate Mortgage [5] on October 23, 1973, the relevant provisions of which stated:

That for and in consideration of certain loans, overdrafts and other credit accommodations obtained from the Mortgagee, which is hereby fixed at P83,000.00 Philippine Currency and to secure the payment of the same and those others that the Mortgagee may extend to the Mortgagor, including interest and expenses, and other obligations owing by the Mortgagor to the Mortgagee, whether direct or indirect principal or secondary, as appear in the accounts, books and records of the Mortgagee, the Mortgagor does hereby transfer and convey by way of mortgage unto the Mortgagee, its successors or assigns, the parcels of land which are described in the list inserted at the back of this document, or in a supplementary list attached hereto, together with all the buildings and improvements now existing or which may hereafter be erected or constructed thereon and all easements, sugar quotas, agricultural or land indemnities, aids or subsidies, including all other rights or benefits annexed to or inherent therein now existing or which may hereafter exist, and also other assets acquired with the proceeds of the loan hereby secured all of which the mortgagor declares that he is the absolute owner free from all liens and encumbrances. In case the Mortgagor executes subsequent promissory note or notes either as a renewal of the former note, as an extension thereof, or as a new loan, or is given any other kind of accommodations such as overdrafts, letters of credit, acceptances and bills of exchange, releases of import shipments on Trust Receipts, etc., this mortgage shall also stand as security for the payment of the said promissory note or notes and/or accommodations without the necessity of executing a new contract and this mortgage shall have the same force and effect as if the said promissory note or notes and/or accommodations were existing on the date thereof. This mortgage shall also stand as security for said obligations and any and all other obligations of the Mortgagor to the Mortgagee of whatever kind and nature whether such obligations have been contracted before, during or after the constitution of this mortgage. However, if the Mortgagor shall pay to the Mortgagee, its successors or assigns the obligations secured by this mortgage, together with interests, cost and other expenses, on or before the date they are due, and shall keep

and perform all the covenants and agreements herein contained for the Mortgagor to keep and perform, then this mortgage shall be null and void, otherwise, it shall remain in full force and effect. [6]

The properties included in the mortgage were the parcels of land covered under Transfer Certificate of Title (TCT) Nos. 17217, (T-262) RT-644, 259, (T-265) RT-646, (T-261) RT-643 [7] of the Registry of Deeds of Batangas. From the year 1973, Luis Ramos would renew the loan every year after paying the amounts falling due therein. [8]

The Sugar Quedan Financing Loans

On March 31, 1989, Luis Ramos and PNB entered into a Credit Line Agreement [9] in the amount of P50,000,000.00 under the bank's sugar quedan financing program. The agreement pertinently provided thus:

For and in consideration of the Bank agreeing to extend to the Borrower a Revolving Credit Line (the "Line") in an amount not to exceed PESOS: FIFTY MILLION ONLY (P50,000,000.00), under the Bank's Sugar Quedan Financing Program for Crop Year 88/89, the parties hereto hereby agree as follows:

SECTION 1. TERMS OF THE LINE

1.01 Amount and Purpose of the Line. The Line shall be available to the Borrower in an aggregate amount not to exceed FIFTY MILLION ONLY Pesos (P50,000,000.00). x x x Availments on the Line shall be used by the Borrower exclusively for additional capital in sugar quedan financing. 1.02 Availability Period; Availments. (a) Subject to the terms and conditions hereof, the Line shall be available to the Borrower in several availments (individually an "Availment" and collectively the "Availments") on any Banking Day x x x during the period commencing on the Effectivity Date x x x and terminating on the earliest of (i) August 31, 19__, or (ii) the date the Bank revokes the Line, or (iii) the date the Borrower ceases to be entitled to avail of the Line under the terms hereof.

x x x x

1.03 Promissory Notes. Availments on the Line shall be evidenced by promissory notes (individually a "Note" and collectively the "Notes") issued by the Borrower in favor of the Bank in the form and substance acceptable to the Bank. Each Note shall be (i) dated the date of Availment, (ii) in the principal amount of such Availment, with interest thereon at the rate as provided in Section 1.04 hereof, and (iii) payable on the date occurring sixty (60) days from date of the availment, but in no case later than August 31, 19__ (the "Initial Repayment Date").

x x x x

SECTION 3. SECURITY

3.01 Security Document. The full payment of any and all sums payable by the Borrower hereunder and under the Notes, the Renewal Notes and the other documents contemplated hereby and the performance of all obligations of the Borrower hereunder and under the Notes, the Renewal Notes and such other documents shall be secured by a pledge (the "Pledge") on the Borrower's quedans for crop year ---__, as more particularly described in and subject to the terms and conditions of that Contract of Pledge to be executed by the Borrower in favor of the Bank, which Contract shall in any event be in form and substance acceptable to the Bank (the "Security Document"). [10] (Emphases ours.)

Pursuant to the above agreement, Luis Ramos obtained an availment of P7,800,000.00, which was evidenced by a promissory note dated April 3, 1989. [11] Accordingly, Luis Ramos executed a Contract of Pledge [12] in favor of PNB on April 6, 1989. Pledged as security for the availment were two official warehouse receipts (quedans) for refined sugar issued by Noah's Ark Sugar Refinery (Noah's Ark), which bore the serial numbers NASR RS-18080 and NASR RS-18081. [13] The said quedans were duly indorsed to PNB.

On June 6, 1989, Luis Ramos procured another availment of P7,800,000.00 that was likewise contained in a promissory note [14] and for which he executed another Contract of Pledge [15] on the aforementioned quedans on even date.

Thereafter, Luis Ramos was granted a renewal on the promissory notes dated April 3, 1989 and June 6, 1989. Hence, he executed in favor of PNB the promissory notes dated October 3, 1989 and October 9, 1989. [16]

Luis Ramos eventually failed to settle his sugar quedan financing loans amounting to P15,600,000.00. On December 28, 1989, he issued an Authorization [17] in favor of PNB, stating as follows:

AUTHORIZATION

KNOW ALL MEN BY THESE PRESENTS:

In consideration of my Sugar Quedan Financing line granted by Philippine National Bank, Balayan Branch in the amount of P50.0 Million, as evidenced by Credit Agreement dated March 31, 1989, the undersigned, as borrower, authorizes the Philippine National Bank, Balayan Branch, or any of its duly authorized officer, to dispose and sell all the Quedan Receipts (Warehouse Receipts) pledged to said bank, after maturity date of the Sugar Quedan Financing line.

The Sugar Quedan Receipts are hereunder specifically enumerated:

Official Warehouse Receipt (Quedan) Serial Nos.:

- 1) NASR RS – 18081 Crop Year 1988-89 (16,129.03 – 50 kilo bags)
- 2) NASR RS – 18080 Crop Year 1988-89 (16,393.44 – 50 kilo bags)

Incidentally, the above-mentioned sugar quedans became the subject of three other cases between PNB and Noah's Ark, which cases have since reached this Court. [18]

The Agricultural Crop Loan

Meanwhile, on August 7, 1989, the spouses Luis Ramos and Ramona Ramos (spouses Ramos) also obtained an agricultural loan of P160,000.00 from PNB. Said loan was evidenced by a promissory note [19] issued by the spouses on even date. The said loan was secured by the real estate mortgage previously executed by the parties on October 23, 1973.

On November 2, 1990, the spouses Ramos fully settled the agricultural loan of P160,000.00. [20] They then demanded from PNB the release of the real estate mortgage. PNB, however, refused to heed the spouses' demand. [21]

On February 28, 1996, the spouses Ramos filed a complaint for Specific Performance [22] against the PNB, Balayan Branch, which was docketed as Civil Case No. 3241 in the Regional Trial Court (RTC) of Balayan, Batangas. The spouses claimed that the actions of PNB impaired their rights in the properties included in the real estate mortgage. They alleged that they lost business opportunities since they could not raise enough capital, which they could have acquired by mortgaging or disposing of the said properties. The spouses Ramos prayed for the trial court to order PNB to release the real estate mortgage on their properties and to return to the spouses the TCTs of the properties subject of the mortgage.

In its Answer, [23] PNB countered that the spouses Ramos had no cause of action against it since the latter knew that the real estate mortgage secured not only their P160,000.00 agricultural loan but also the other loans the spouses obtained from the bank. Specifically, PNB alleged that the spouses' sugar quedan financing loan of P15,600,000.00 remained unpaid as the quedans were dishonored by the warehouseman Noah's Ark. PNB

averred that it filed a civil action for specific performance against Noah's Ark involving the quedans and the case was still pending at that time. As PNB was still unable to collect on the quedans, it claimed that the spouses Ramos' loan obligations were yet to be fully satisfied. Thus, PNB argued that it could not release the real estate mortgage in favor of the spouses.

On March 26, 1999, the RTC rendered a Decision [24] in favor of the spouses Ramos, holding that:

A careful analysis of the evidence on record clearly shows that there is merit to the [spouses Ramos'] complaint that their obligation with [PNB] has long been paid and satisfied.

As the records show, PNB admitted that [Luis Ramos] has already paid his sugar crop loan in the amount of P160,000.00 x x x. The reason why it refused to release the certificates of titles to the [spouses Ramos] was allegedly because the said titles were also mortgaged to secure the other obligations of Luis Ramos, particularly the sugar crop loan in the amount of P15.6 Million. However, even assuming that its argument is correct that the said certificates of titles were also security for the said sugar financing loan, the same is of no consequence since the [spouses Ramos] have likewise fully paid the sugar loan when they effectively transferred the sugar quedans to [PNB] by issuing a letter authority, authorizing it to dispose and sell all the Quedan Receipts (Warehouse Receipts) of the [spouses Ramos] which they pledged to the bank on December 29, 1989 x x x. [Luis Ramos] executed the said letter of authority to the PNB when he could not anymore afford to pay his loan which became due. There is no doubt that [PNB] accepted the said quedans with the understanding that the same shall be treated as payment of [spouses Ramos'] obligation, considering that it did not hesitate to proceed to demand from Noah's Ark Sugar Refinery, the delivery of the sugar stocks to them as new owners thereof. It is, therefore, very clear that the authorization issued by [Luis Ramos] in favor of [PNB], giving the latter the right to dispose and sell the pledged warehouse receipts/quedans totally terminated the contract of pledge between the [spouses Ramos] and [PNB]. In effect there was a novation of their agreement and dation in payment set in between the parties thereby extinguishing the loan obligation of the [spouses Ramos], as provided in Article 1245 of the Civil Code.

Article 1245 of the Civil Code provides that dation in payment is a special form of payment whereby property is alienated by the debtor to the creditor in satisfaction of a debt in money. As stated differently by the noted commentator Manresa, dacion en pago is the transfer of ownership of a thing by the debtor to the creditor as an accepted equivalent of the performance of an obligation. This was what precisely plaintiff Luis Ramos did in this case. He alienated the ownership of the sugar quedans and the goods covered by said quedans to [PNB] in satisfaction of his loan obligation with [PNB].

x x x x

WHEREFORE, the defendant Philippine National Bank, Balayan Branch is hereby ORDERED to RELEASE the real estate mortgage on the properties of the [spouses Ramos] and to return to them all the transfer certificates of titles which were pledged as security for the agricultural loan which had long been paid and satisfied and to pay the costs. [25] (Emphasis ours.)

PNB filed a Notice of Appeal [26] involving the above decision, which was given due course by the RTC in an Order dated May 11, 1999. The records of the case were then forwarded to the Court of Appeals where the case was docketed as CA-G.R. CV No. 64360.

Before the appellate court, PNB contested the ruling of the RTC that the spouses Ramos have already settled their sugar quedan financing loan with PNB when they issued a letter of authority, which authorized PNB to sell the quedan receipts of the spouses Ramos. PNB also contended that the real estate mortgage executed by the spouses Ramos in its favor secured not only the spouses Ramos' agricultural crop loan in the amount of P160,000.00, but also their 1989 sugar quedan financing loan. [27]

On the other hand, the spouses Ramos averred that the authorization issued by Luis Ramos in favor of PNB, authorizing the latter to dispose and sell the pledged sugar quedans terminated the contract of pledge between the spouses Ramos and PNB. There was in effect a novation of the contract of pledge and, thereafter, dation in payment set in between the parties. [28] The spouses Ramos also claimed that the condition in the parties' real estate mortgage, which stated that the "mortgage shall also stand as security for said obligations and any and all other obligations of the MORTGAGOR to the MORTGAGEE of whatever kind and nature, whether such obligations have been contracted before, during or after the constitution of mortgage[.]" was essentially a contract of adhesion and violated the doctrine of mutuality of contract. [29]

On November 8, 2006, the Court of Appeals promulgated its assailed decision, reversing the judgment of the RTC. The appellate court elucidated thus:

In the instant appeal, the trial court ruled that the issuance of [the] authorization letter by [spouses Ramos] in favor of [PNB] terminated the contract of pledge between the parties and in effect dation in payment sets-in.

We do not agree. First, the authorization letter did not provide that ownership of the goods pledged would pass to [PNB] for failure of [spouses Ramos] to pay the loan on time. This is contrary to the concept of Dacion en pago as the "delivery and transmission of ownership of a thing by the debtor to the creditor as an accepted equivalent of the performance of the obligation." Second, the authorization merely provided for the appointment of [PNB] as attorney-in-fact with authority, among other things, to sell or otherwise dispose of the said real rights, in case of default by [spouses Ramos], and to apply the proceeds to the payment of the loan. This provision is a standard condition in pledge contracts and is in conformity with Article 2087 of the Civil Code, which authorizes the pledgee to foreclose the pledge and alienate the pledged property for the payment of the principal obligation. Lastly, there was no meeting of the minds between [spouses Ramos] and [PNB] that the loan would be extinguished by dation in payment.

Article 1245 of the Civil Code provides that the law on sales shall govern an agreement of dacion en pago. A contract of sale is perfected at the moment there is a meeting of the minds of the parties thereto upon the thing which is the object of the contract and upon the price. x x x.

x x x x

In this case, there was no meeting of the mind between the parties that would lead us to conclude that dation in payment has set-in. The trial court based its decision that there was dation in payment solely on the authorization letter, which we do not agree. This is because the authorization letter merely authorizes "the Philippine National Bank, Balayan Branch, or any of its duly authorized officer, to dispose and sell all the Quedan Receipts (Warehouse Receipts) pledge to said bank, after maturity date of the Sugar Quedan Financing Loan."

Moreover, in case of doubt as to whether a transaction is a pledge or dation in payment, the presumption is in favor of pledge, the latter being the lesser transmission of rights and interest.

x x x x

WHEREFORE, the appeal is hereby GRANTED. ACCORDINGLY, the Decision dated March 26, 1999 of the Regional Trial Court of Balayan, Batangas, Branch 9, is hereby REVERSED and a new one is entered ordering [PNB] to hold the release of all the transfer certificates of titles which were pledged as security for the agricultural loan of [spouses Ramos]. [30]

On November 30, 2006, the spouses Ramos filed a Motion for Reconsideration [31] of the Court of Appeals decision. The spouses then asserted that it was unclear whether the parties intended that the real estate mortgage would also secure the sugar quedan financing loan, which was specifically secured by the pledge on the quedans. They alleged that the sugar quedan financing loan, the contract of pledge and the promissory notes did not even

make any reference to the real estate mortgage. PNB apparently violated its implied duty of good faith by wrongfully retaining the spouses Ramos' collateral and improperly invoking the obscure terms of the real estate mortgage it prepared.

Subsequently, the spouses Ramos filed a Motion for Leave to File Supplemental Argument. [32] They added that PNB could not have acquired a security interest on the real estate mortgage for the purpose of the sugar quedan financing loan because when the real estate mortgage was constituted, the credit line from whence the sugar quedan financing loan was sourced did not yet exist. The spouses Ramos also argued that PNB was in bad faith in retaining the collateral of their real estate mortgage as it knew or should have known that the said security was already void given that the agricultural crop loan secured by the mortgage was already fully paid.

In the assailed Resolution dated May 28, 2007, the Court of Appeals denied the spouses Ramos' motion for reconsideration as it found no compelling reason to reverse its Decision dated November 8, 2006.

On June 18, 2007, the counsel for the spouses Ramos notified the Court of Appeals that Luis Ramos had passed away and that the latter's wife, Ramona Ramos, acted as the legal representative of Luis' estate.

Thereafter, Ramona Ramos and the estate of Luis Ramos (petitioners) filed the instant petition in a final bid to have the real estate mortgage declared null and void as regards their sugar quedan financing loan, as well as to compel PNB to return the TCTs of the properties included in the said mortgage.

On September 10, 2007, PNB filed a Motion for Substitution of Party, [33] alleging that it has sold to Golden Dragon Star Equities, Inc. all of its rights, titles and interests in and all obligations arising out of or in connection with several cases, including the instant case. Afterwards, Golden Dragon Star Equities, Inc. assigned to Opal Portfolio Investments (SPV-AMC) Inc. all of its rights and obligations as a purchaser under the contract of sale with PNB. Thus, PNB prayed that it be substituted by Opal Portfolio Investments (SPV-AMC) Inc. as party respondent in the petition.

In the Resolution [34] dated October 10, 2007, the Court denied the above motion of PNB and instead ordered that Opal Portfolio Investments (SPV-AMC) Inc. and Golden Dragon Star Equities, Inc. be included as respondents in addition to PNB. The said corporations were then required to file their comment on the petition within ten days from notice. [35] On January 25, 2008, Opal Portfolio Investments (SPV-AMC) Inc. and Golden Dragon Star Equities, Inc. manifested that they were adopting as their own the comment filed by PNB. [36]

The Issues

Petitioners raise the following issues:

1.

IS THE MEANING OF THE GENERAL TERMS OF THE REAL ESTATE MORTGAGE CLEAR AND LEAVE NO DOUBT THAT THERE IS NO NEED TO DETERMINE WHETHER THE PARTIES INTENDED TO CREATE AND PROVIDE SECURITY INTEREST ON THE REAL ESTATE COLLATERAL OF BORROWER LUIS T. RAMOS FOR THE SUGAR QUEDAN FINANCING LOAN GRANTED TO HIM BY LENDER PNB, IN ADDITION TO THE AGRICULTURAL CROP LOAN THAT WAS UNDISPUTEDLY AGREED UPON BY THEM TO BE COVERED BY THE COLLATERAL?

2.

SHOULD THE GENERAL TERMS OF THE REAL ESTATE MORTGAGE EXECUTED BY BORROWER LUIS T. RAMOS IN FAVOR OF LENDER PNB BE UNDERSTOOD TO INCLUDE IN ITS COVERAGE THE BORROWER'S SUGAR QUEDAN FINANCING LOAN THAT IS DIFFERENT FROM HIS

AGRICULTURAL CROP LOAN UNDISPUTEDLY AGREED UPON BY THE PARTIES TO BE COVERED BY THE COLLATERAL?

3.

SHOULD THE REAL ESTATE MORTGAGE EXECUTED IN 1973 BE CONSIDERED VALID AND EXISTING SECURITY DEVICE AGREEMENT FOR SUGAR QUEDAN FINANCING LOAN OBTAINED PURSUANT TO CREDIT LINE AGREEMENT EXECUTED ONLY IN 1989? [37]

Petitioners principally argue that the scope and coverage of the real estate mortgage excluded the sugar quedan financing loan. Petitioners assert that the mortgage contained a blanket mortgage clause or a dragnet clause, which stated that the mortgage would secure not only the loans already obtained but also any other amount that Luis Ramos may loan from PNB. Petitioners posit that a dragnet clause will cover and secure a subsequent loan only if said loan is made in reliance on the original security containing the dragnet clause. Petitioners state that said condition did not exist in the instant case, as the sugar quedan financing loan was not obtained in reliance on the previously executed real estate mortgage. Such fact was supposedly apparent from the documents pertaining to the sugar quedan financing loans, i.e., the credit line agreement, the various promissory notes and the contracts of pledge.

PNB responded that the issue of whether the parties intended for the real estate mortgage to secure the sugar quedan financing loan was never raised in the RTC or in the Court of Appeals. Therefore, the same cannot be raised for the first time in the motion for reconsideration of the Court of Appeals decision and in the instant petition. Likewise, PNB asserts that the spouses Ramos consented to the terms of the real estate mortgage that the real properties subject thereof should be used to secure future and subsequent loans of the mortgagor. Since the spouses never contested the validity and enforceability of the real estate mortgage, the same must be respected and should govern the relations of the parties therein.

PNB also avers that the Court of Appeals did not err in ruling that there was no dacion en pago and/or novation under the circumstances prevailing in the instant case. The Authorization issued by Luis Ramos in favor of PNB did not terminate the contract of pledge between the parties as PNB was merely authorized to dispose and sell the sugar quedans to be applied as payment to the obligation. Hence, no transfer of ownership occurred. Article 2103 of the Civil Code expressly states that “unless the thing pledged is expropriated, the debtor continues to be the owner thereof.” PNB argued that when it accepted the Authorization, it recognized that it was merely being authorized by Luis Ramos to dispose of the quedans. Therefore, until the spouses Ramos fully settle their loans from PNB, the latter believes that it has every right to retain possession of the properties offered as collateral thereto.

After due consideration of the issues raised, we are compelled to deny the petition.

To begin with, we note that, indeed, petitioners are presently raising issues that were neither invoked nor discussed before the RTC and the main proceedings before the Court of Appeals. The very issues laid down by petitioners for our consideration were first brought up only in their motion for reconsideration of the Court of Appeals Decision dated November 8, 2006.

In their complaint before the RTC and in their reply to PNB’s appeal to the Court of Appeals, petitioners relied on the theory that they have already settled all of their loan obligations with PNB, including their sugar quedan financing loan, such that they were entitled to the release of the real estate mortgage that secured the said obligations. When the Court of Appeals rendered the assailed decision, petitioners foisted a new argument in their motion for reconsideration that the parties did not intend for the sugar quedan financing loan to be covered by the real estate mortgage. Before this Court, petitioners are now reiterating and expounding on their argument that

their sugar quedan financing loan was beyond the ambit of the previously executed real estate mortgage. We rule that such a change in petitioners' theory may not be allowed at such late a stage in the case.

The general rule is that issues raised for the first time on appeal and not raised in the proceedings in the lower court are barred by estoppel. Points of law, theories, issues, and arguments not brought to the attention of the trial court ought not to be considered by a reviewing court, as these cannot be raised for the first time on appeal. To consider the alleged facts and arguments raised belatedly would amount to trampling on the basic principles of fair play, justice, and due process. [38]

Jurisprudence, nonetheless, provides for certain exceptions to the above rule. First, it is a settled rule that the issue of jurisdiction may be raised at any time, even on appeal, provided that its application does not result in a mockery of the tenets of fair play. Second, as held in *Liang Lumber Company v. Liang Timber Co., Inc.*, [39] in the interest of justice and within the sound discretion of the appellate court, a party may change his legal theory on appeal only when the factual bases thereof would not require presentation of any further evidence by the adverse party in order to enable it to properly meet the issue raised in the new theory.

None of the above exceptions, however, applies to the instant case. As regards the first exception, the issue of jurisdiction was never raised at any point in this case. Anent the second exception, the Court finds that the application of the same in the case would be improper, as further evidence is needed in order to answer and/or refute the issue raised in petitioners' new theory.

To recapitulate, petitioners are now claiming that the sugar quedan financing loan it availed from PNB was not obtained in reliance on the real estate mortgage. Petitioners even insist that the credit line agreement, the promissory notes and the contracts of pledge entered into by the parties were silent as to the applicability thereto of the real estate mortgage. Otherwise stated, petitioners are harping on the intention of the parties vis-à-vis the security arrangement for the credit line agreement and the availments thereof constituting the sugar quedan financing loan. The impropriety of the petitioners' posturing is further confounded by the fact that the credit line agreement under PNB's sugar quedan financing program and the availments thereto were entered into by Luis Ramos and PNB as far back as the year 1989. Petitioners' new theory, on the other hand, was only raised much later on the spouses' motion for reconsideration of the Court of Appeals decision dated November 8, 2006, or after a period of more or less seventeen years since the execution of the credit line agreement. The Court, therefore, finds itself unable to give credit to the new theory proffered by petitioners since to do so would gravely offend the rights of PNB to due process.

Even if the Court were willing to overlook petitioners' procedural misstep on appeal, their belatedly proffered theory still fails to convince us that the Court of Appeals committed any reversible error in its resolution of the present case.

According to petitioners, their case requires an application of Article 1371 of the Civil Code, which provides that "in order to judge the intention of the contracting parties, their contemporaneous and subsequent acts shall be principally considered." To their mind, the mere fact that the 1989 credit line agreement, the promissory notes and the contracts of pledge executed in relation to the sugar quedan financing loan contained no reference to the real estate mortgage is sufficient proof that the parties did not intend the real estate mortgage to secure the sugar quedan financing loan, but only the agricultural crop loans. The Court finds that it cannot uphold this proposition.

In *Prisma Construction & Development Corporation v. Menchavez*, [40] we discussed the settled principles that:

Obligations arising from contracts have the force of law between the contracting parties and should be complied with in good faith. When the terms of a contract are clear and leave no doubt as to the intention of the contracting parties, the literal meaning of its stipulations governs. In such cases, courts have no authority to

alter the contract by construction or to make a new contract for the parties; a court's duty is confined to the interpretation of the contract the parties made for themselves without regard to its wisdom or folly, as the court cannot supply material stipulations or read into the contract words the contract does not contain. It is only when the contract is vague and ambiguous that courts are permitted to resort to the interpretation of its terms to determine the parties' intent. [41]

Here, it cannot be denied that the real estate mortgage executed by the parties provided that it shall stand as security for any "subsequent promissory note or notes either as a renewal of the former note, as an extension thereof, or as a new loan, or is given any other kind of accommodations such as overdrafts, letters of credit, acceptances and bills of exchange, releases of import shipments on Trust Receipts, etc." The same real estate mortgage likewise expressly covered "any and all other obligations of the Mortgagor to the Mortgagee of whatever kind and nature whether such obligations have been contracted before, during or after the constitution of this mortgage." Thus, from the clear and unambiguous terms of the mortgage contract, the same has application even to future loans and obligations of the mortgagor of any kind, not only agricultural crop loans.

Such a "blanket clause" or "dragnet clause" in mortgage contracts has long been recognized in our jurisprudence. Thus, in another case, we held:

As a general rule, a mortgage liability is usually limited to the amount mentioned in the contract. 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 as the "blanket mortgage clause" (also known as the "dragnet clause)."

In the present case, the mortgage contract indisputably provides that the subject properties serve as security, not only for the payment of the subject loan, but also for "such other loans or advances already obtained, or still to be obtained." The cross-collateral stipulation in the mortgage contract between the parties is thus simply a variety of a dragnet clause. After agreeing to such stipulation, the petitioners cannot insist that the subject properties be released from mortgage since the security covers not only the subject loan but the two other loans as well. [42] (Emphases supplied.)

Moreover, petitioners' reliance on *Prudential Bank v. Alviar* [43] is sorely misplaced. In *Prudential*, the fact that another security was given for subsequent loans did not remove such loans from the ambit of the dragnet clause in a previous real estate mortgage contract. However, it was held in *Prudential* that the special security for subsequent loans must first be exhausted before the creditor may foreclose on the real estate mortgage. In other words, the creditor is allowed to hold on to the previous security (the real estate mortgage) in case of deficiency after resort to the special security given for the subsequent loans. Verily, even under the *Prudential* ruling cited by petitioners, they are not entitled to the release of the real estate mortgage and the titles to the properties mentioned therein.

Ultimately, we likewise find no reason to overturn the assailed ruling of the Court of Appeals that the contract of pledge between petitioners and PNB was not terminated by the Authorization letter issued by Luis Ramos in favor of PNB. The status of PNB as a pledgee of the sugar quedans involved in this case had long been confirmed by the Court in its Decision dated July 9, 1998 in *Philippine National Bank v. Sayo, Jr.* [44] and the same is neither disputed in the instant case. We reiterate our ruling in *Sayo* that:

The creditor, in a contract of real security, like pledge, cannot appropriate without foreclosure the things given by way of pledge. Any stipulation to the contrary, termed *pactum commissorio*, is null and void. The law requires foreclosure in order to allow a transfer of title of the good given by way of security from its pledgor, and before any such foreclosure, the pledgor, not the pledgee, is the owner of the goods. x x x. [45]

A close reading of the Authorization executed by Luis Ramos reveals that it was nothing more than a letter that gave PNB the authority to dispose of and sell the sugar quedans after the maturity date thereof. As held by the Court of Appeals, the said grant of authority on the part of PNB is a standard condition in a contract of pledge, in accordance with the provisions of Article 2087 of the Civil Code that “it is also of the essence of these contracts that when the principal obligation becomes due, the things in which the pledge or mortgage consists may be alienated for the payment to the creditor.” More importantly, Article 2115 of the Civil Code expressly provides that the sale of the thing pledged shall extinguish the principal obligation, whether or not the proceeds of the sale are equal to the amount of the principal obligation, interest and expenses in a proper case. As we adverted to in Sayo, it is the foreclosure of the thing pledged that results in the satisfaction of the loan liabilities to the pledgee of the pledgors. Thus, prior to the actual foreclosure of the thing pledged, the sugar quedan financing loan in this case is yet to be settled.

As matters stand, with more reason that PNB cannot be compelled to release the real estate mortgage and the titles involved therein since the issue of whether the sugar quedan financing loan will be fully paid through the pledged sugar receipts remains the subject of pending litigation.

WHEREFORE, the petition is DENIED. The Decision dated November 8, 2006 and the Resolution dated May 28, 2007 of the Court of Appeals in CA-G.R. CV No. 64360 are hereby AFFIRMED. Costs against petitioners.

SO ORDERED.

Corona, C.J., (Chairperson), Del Castillo, Abad, and Mendoza, JJ., concur.

[*] Per Raffle dated November 14, 2011.

[1] Rollo, pp. 3-38.

[2] Id. at 39-53; penned by Associate Justice Monina Arevalo-Zenarosa with Associate Justices Martin S. Villarama, Jr. and Lucas P. Bersamin (now members of this Court), concurring.

[3] Id. at 54-56.

[4] TSN, May 28, 1998, p. 5.

[5] Rollo, pp. 57-62.

[6] Id. at 57.

[7] Id. at 59-62.

[8] TSN, December 18, 1997, p. 4; TSN, May 28, 1998, pp. 14-16.

[9] Rollo, pp. 63-76.

[10] Id. at 63-65.

[11] Id. at 77.

[12] Id. at 78-81.

[13] Id. at 82-85.

[14] Id. at 86.

[15] Records, pp. 43-46.

[16] Rollo, pp. 87-88.

[17] Id. at 89.

[18] On March 16, 1990, PNB filed a complaint for specific performance with damages against Noah's Ark in view of the latter's refusal to deliver the stock of sugar covered by the quedans indorsed by Luis Ramos. The complaint was docketed as Civil Case No. 90-53023 in the RTC of Manila. Subsequently, PNB filed a motion for summary judgment. The RTC denied the motion, as well as the motion for reconsideration thereon. PNB elevated the case to the Court of Appeals via a special civil action for certiorari.

In a Decision dated September 13, 1991, the appellate court set aside the ruling of the trial court and directed that "summary judgment be rendered forthwith in favor of PNB against Noah's Ark Sugar Refinery, et al., as prayed for in petitioner's Motion for Summary Judgment." The said judgment of the Court of Appeals became final and entry of judgment was made on May 26, 1992. The case was then remanded to the trial court. On June 18, 1992, instead of following the order of the Court of Appeals, the RTC dismissed the complaint of PNB.

PNB filed an appeal to this Court, which was docketed as G.R. No. 107243 (Philippine National Bank v. Noah's Ark Sugar Refinery). In our Decision dated September 1, 1993, the Court reversed the decision of the RTC and ordered Noah's Ark:

(a) to deliver to the petitioner Philippine National Bank, 'the sugar stocks covered by the Warehouse Receipts/Quedans which are now in the latter's possession as holder for value and in due course; or alternatively, to pay (said) plaintiff actual damages in the amount of P39.1 million,' with legal interest thereon from the filing of the complaint until full payment; and

(b) to pay plaintiff Philippine National Bank attorney's fees, litigation expenses and judicial costs hereby fixed at the amount of One Hundred Fifty Thousand Pesos (P150,000.00) as well as the costs.

Noah's Ark filed a motion for reconsideration, but we denied the same in an Order dated January 10, 1994.

Thereafter, Noah's Ark filed with the RTC an omnibus motion praying, inter alia, for the deferment of the proceedings until it can be heard on its claim for warehouseman's lien. The RTC granted Noah's Ark's motion and proceeded to receive evidence in support of the latter's claim for warehouseman's lien. In an Order dated March 1, 1995, the RTC declared that there existed in favor of Noah's Ark a valid warehouseman's lien and so, the execution of judgment was ordered stayed until PNB shall have satisfied the full amount of the lien.

PNB filed a petition before this Court, seeking the annulment of the resolutions of the RTC that authorized the reception of the evidence for the claim of warehouseman's lien and declared the validity of the said lien in favor of PNB. The petition was docketed as G.R. No. 119231 (Philippine National Bank v. Se). In our Decision dated April 18, 1996, we denied PNB's petition, ruling that while PNB was entitled to the sugar stocks as endorsee of the quedans, the delivery to it shall only be effected upon its payment of storage fees to Noah's Ark.

After the decision in G.R. No. 119231 became final and executory, Noah's Ark filed a motion for execution of its lien as warehouseman. PNB opposed the motion, arguing that the lien claimed in the amount of P734,341,595.06 was illusory and that there was no legal basis for the execution of Noah's Ark's lien as warehouseman until PNB compels the delivery of the sugar stocks. In an Order dated April 15, 1997, the RTC granted the motion for execution of Noah's Ark. PNB moved for the reconsideration of the said order but the same was denied. PNB, thus, instituted a petition for certiorari with the Court, ascribing grave abuse of discretion on the part of the RTC, which petition was docketed as G.R. No. 129918 (Philippine National Bank v. Sayo).

In the Court's decision dated July 9, 1998, the status of PNB as a pledgee of the quedans was confirmed. Nonetheless, we stated that Noah's Ark was entitled to the warehouseman's lien and that the finality of the decision in G.R. No. 119231 sustained the said lien. The Court then remanded the case to the RTC to afford Noah's Ark the opportunity to adduce evidence on the amount due as warehouseman's lien.

[19] Records, p. 5.

[20] Id. at 2.

[21] Id. at 144.

[22] Id. at 1-4.

[23] Id. at 13-16.

[24] Rollo, pp. 94-115; penned by Executive Judge Elihu A. Ybanez.

[25] Id. at 108-115.

[26] Records, p. 305.

[27] CA rollo, pp. 39-40.

[28] Id. at 97-98.

[29] Id. at 102.

[30] Rollo, pp. 48-53.

[31] Id. at 116-128.

[32] CA rollo, pp. 178-195.

[33] Rollo, pp. 172-190.

[34] Id. at 211-A.

[35] Id. at 221-A.

[36] Id. at 237-240.

[37] Id. at. 6-7.

[38] Imani v. Metropolitan Bank & Trust Company, G.R. No. 187023, November 17, 2010, 635 SCRA 357, 371.

[39] 166 Phil. 661, 687 (1977).

[40] G.R. No. 160545, March 9, 2010, 614 SCRA 590.

[41] Id. at 597-598.

[42] Banate v. Philippine Countryside Rural Bank (Liloan, Cebu), Inc., G.R. No. 163825, July 13, 2010, 625 SCRA 21, 30-31.

[43] 502 Phil. 595 (2005).

[44] 354 Phil. 211 (1998).

[45] Id. at 244.

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