SPS. ANTONIO & LETICIA VEGA, PETITIONER, VS. SOCIAL SECURITY SYSTEM (SSS) & PILAR DEVELOPMENT CORPORATION, RESPONDENTS.

G.R. No. 181672. September 20, 2010

Ponente: ABAD, J.

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ABAD, J.:

This case is about the lack of authority of a sheriff to execute upon a property that the judgment obligor had long sold to another although the registered title to the property remained in the name of the former.

The Facts and the Case

Magdalena V. Reyes (Reyes) owned a piece of titled land[1] in Pilar Village, Las Piñas City. On August 17, 1979 she got a housing loan from respondent Social Security System (SSS) for which she mortgaged her land.[2] In late 1979, however, she asked the petitioner spouses Antonio and Leticia Vega (the Vegas) to assume the loan and buy her house and lot since she wanted to emigrate.[3]

Upon inquiry with the SSS, an employee there told the Vegas that the SSS did not approve of members transferring their mortgaged homes. The Vegas could, however, simply make a private arrangement with Reyes provided they paid the monthly amortizations on time. This practice, said the SSS employee, was commonplace.[4] Armed with this information, the Vegas agreed for Reyes to execute in their favor a deed of assignment of real property with assumption of mortgage and paid Reyes P20,000.00 after she undertook to update the amortizations before leaving the country. The Vegas then took possession of the house in January 1981.[5]

But Reyes did not readily execute the deed of assignment. She left the country and gave her sister, Julieta Reyes Ofilada (Ofilada), a special power of attorney to convey ownership of the property. Sometime between 1983 and 1984, Ofilada finally executed the deed promised by her sister to the Vegas. Ofilada kept the original and gave the Vegas two copies. The latter gave one copy to the Home Development Mortgage Fund and kept the other.[6] Unfortunately, a storm in 1984 resulted in a flood that destroyed the copy left with them.[7]

In 1992, the Vegas learned that Reyes did not update the amortizations for they received a notice to Reyes from the SSS concerning it.[8] They told the SSS that they already gave the payment to Reyes but, since it appeared indifferent, on January 6, 1992 the Vegas updated the amortization themselves and paid P115,738.48 to the SSS, through Antonio Vega's personal check.[9] They negotiated seven additional remittances and the SSS accepted P8,681.00 more from the Vegas.[10]

Meanwhile, on April 16, 1993 respondent Pilar Development Corporation (PDC) filed an action for sum of money against Reyes before the Regional Trial Court (RTC) of Manila in Civil Case 93-6551. PDC claimed that Reyes borrowed from Apex Mortgage and Loans Corporation (Apex) P46,500.00 to buy the lot and construct a house on it.[11] Apex then assigned Reyes' credit to the PDC on December 29, 1992,[12] hence, the suit by PDC for the

recovery of the unpaid debt. On August 26, 1993 the RTC rendered judgment, ordering Reyes to pay the PDC the loan of P46,398.00 plus interest and penalties beginning April 11, 1979 as well as attorney's fees and the costs.[13] Unable to do so, on January 5, 1994 the RTC issued a writ of execution against Reyes and its Sheriff levied on the property in Pilar Village.[14]

On February 16, 1994 the Vegas requested the SSS to acknowledge their status as subrogees and to give them an update of the account so they could settle it in full. The SSS did not reply. Meantime, the RTC sheriff published a notice for the auction sale of the property on February 24, March 3 and 10, 1994.[15] He also served on the Vegas notice of that sale on or about March 20, 1994.[16] On April 5, 1994, the Vegas filed an affidavit of third party claimant and a motion for leave to admit a motion in intervention to quash the levy on the property.[17]

Still, stating that Vegas' remedy lay elsewhere, the RTC directed the sheriff to proceed with the execution.[18] Meantime, the Vegas got a telegram dated August 29, 1994, informing them that the SSS intended to foreclose on the property to satisfy the unpaid housing debt of P38,789.58.[19] On October 19, 1994 the Vegas requested the SSS in writing for the exact computation of the indebtedness and for assurance that they would be entitled to the discharge of the mortgage and delivery of the proper subrogation documents upon payment. They also sent a P37,521.95 manager's check that the SSS refused to accept.[20]

On November 8, 1994 the Vegas filed an action for consignation, damages, and injunction with application for preliminary injunction and temporary restraining order against the SSS, the PDC, the sheriff of RTC Branch 19, and the Register of Deeds before the RTC of Las Piñas in Civil Case 94-2943. Still, while the case was pending, on December 27, 1994 the SSS released the mortgage to the PDC.[21] And on August 22, 1996 the Register of Deeds issued TCT T-56657 to the PDC.[22] A writ of possession subsequently evicted the Vegas from the property.

On May 8, 2002 the RTC decided Civil Case 94-2943 in favor of the Vegas. It ruled that the SSS was barred from rejecting the Vegas' final payment of P37,521.95 and denying their assumption of Reyes' debt, given the SSS' previous acceptance of payments directly from them. The Vegas were subrogated to the rights of Reyes and substituted her in the SSS housing loan and mortgage contract. That the Vegas had the receipts show that they were the ones who made those payments. The RTC ordered the PDC to deliver to the Vegas the certificate of title covering the property. It also held the SSS and PDC solidarily liable to the Vegas for P300,000.00 in moral damages, P30,000.00 in exemplary damages, and P50,000.00 in attorney's fees and for costs of the suit.[23]

The SSS appealed to the Court of Appeals (CA) in CA G.R. CV 77582. On August 30, 2007 the latter court reversed the RTC decision[24] for the reasons that the Vegas were unable to produce the deed of assignment of the property in their favor and that such assignment was not valid as to PDC. Their motion for reconsideration having been denied, the Vegas filed this petition for review on certiorari under Rule 45.[25]

The Issues Presented

The issues in this case are:

- Whether or not the Vegas presented adequate proof of Reyes' sale of the subject property to them;

- In the affirmative, whether or not Reyes validly sold her SSS-mortgaged property to the Vegas; and

- In the affirmative, whether or not the sheriff validly sold the same at public auction to satisfy Reyes' debt to PDC.

The Rulings of the Court

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One. The CA ruled that the Vegas were unable to prove that Reyes assigned the subject property to them, given that they failed to present the deed of assignment in their favor upon a claim that they lost it.[26] But the rule requiring the presentation of the original of that deed of assignment is not absolute. Secondary evidence of the contents of the original can be adduced, as in this case, when the original has been lost without bad faith on the part of the party offering it.[27]

Here, not only did the Vegas prove the loss of the deed of assignment in their favor and what the same contained, they offered strong corroboration of the fact of Reyes' sale of the property to them. They took possession of the house and lot after they bought it. Indeed, they lived on it and held it in the concept of an owner for 13 years before PDC came into the picture. They also paid all the amortizations to the SSS with Antonio Vega's personal check, even those that Reyes promised to settle but did not. And when the SSS wanted to foreclose the property, the Vegas sent a manager's check to it for the balance of the loan. Neither Reyes nor any of her relatives came forward to claim the property. The Vegas amply proved the sale to them.

Two. Reyes acquired the property in this case through a loan from the SSS in whose favor she executed a mortgage as collateral for the loan. Although the loan was still unpaid, she assigned the property to the Vegas without notice to or the consent of the SSS. The Vegas continued to pay the amortizations apparently in Reyes' name. Meantime, Reyes apparently got a cash loan from Apex, which assigned the credit to PDC. This loan was not secured by a mortgage on the property but PDC succeeded in getting a money judgment against Reyes and had it executed on the property. Such property was still in Reyes' name but, as pointed out above, the latter had disposed of it in favor of the Vegas more than 10 years before PDC executed on it.

The question is: was Reyes' disposal of the property in favor of the Vegas valid given a provision in the mortgage agreement that she could not do so without the written consent of the SSS?

The CA ruled that, under Article 1237[28] of the Civil Code, the Vegas who paid the SSS amortizations except the last on behalf of Reyes, without the latter's knowledge or against her consent, cannot compel the SSS to subrogate them in her rights arising from the mortgage. Further, said the CA, the Vegas' claim of subrogation was invalid because it was done without the knowledge and consent of the SSS as required under the mortgage agreement.[29]

But Article 1237 cannot apply in this case since Reyes consented to the transfer of ownership of the mortgaged property to the Vegas. Reyes also agreed for the Vegas to assume the mortgage and pay the balance of her obligation to SSS. Of course, paragraph 4 of the mortgage contract covering the property required Reyes to secure SSS' consent before selling the property. But, although such a stipulation is valid and binding, in the sense that the SSS cannot be compelled while the loan was unpaid to recognize the sale, it cannot be interpreted as absolutely forbidding her, as owner of the mortgaged property, from selling the same while her loan remained unpaid. Such stipulation contravenes public policy, being an undue impediment or interference on the transmission of property.[30]

Besides, when a mortgagor sells the mortgaged property to a third person, the creditor may demand from such third person the payment of the principal obligation. The reason for this is that the mortgage credit is a real right, which follows the property wherever it goes, even if its ownership changes. Article 2129[31] of the Civil Code gives the mortgagee, here the SSS, the option of collecting from the third person in possession of the mortgaged property in the concept of owner.[32] More, the mortgagor-owner's sale of the property does not affect the right of the registered mortgagee to foreclose on the same even if its ownership had been transferred to another person. The latter is bound by the registered mortgage on the title he acquired.

After the mortgage debt to SSS had been paid, however, the latter had no further justification for withholding the

release of the collateral and the registered title to the party to whom Reyes had transferred her right as owner. Under the circumstance, the Vegas had the right to sue for the conveyance to them of that title, having been validly subrogated to Reyes' rights.

Three. The next question is: was Reyes' sale of the property to the Vegas binding on PDC which tried to enforce the judgment credit in its favor on the property that was then still mortgaged to the SSS?

The CA ruled that Reyes' assignment of the property to the Vegas did not bind PDC, which had a judgment credit against Reyes, since such assignment neither appeared in a public document nor was registered with the register of deeds as Article 1625 of the Civil Code required. Article 1625 reads:

> Art. 1625. An assignment of a credit, right or action shall produce no effect as against third persons, unless it appears in a public instrument, or the instrument is recorded in the Registry of Property in case the assignment involves real property. (1526)

But Article 1625 referred to assignment of credits and other incorporeal rights. Reyes did not assign any credit or incorporeal right to the Vegas. She sold the Vegas her house and lot. They became owner of the property from the time she executed the deed of assignment covering the same in their favor. PDC had a judgment for money against Reyes only. A court's power to enforce its judgment applies only to the properties that are indisputably owned by the judgment obligor.[33] Here, the property had long ceased to belong to Reyes when she sold it to the Vegas in 1981.

The PDC cannot take comfort in the fact that the property remained in Reyes' name when it bought the same at the sheriff sale. The PDC cannot assert that it was a buyer in good faith since it had notice of the Vegas' claim on the property prior to such sale.

Under the circumstances, the PDC must reconvey the subject property to the Vegas or, if this is no longer possible, pay them its current market value as the trial court may determine with interest of 12 percent per annum from the date of the determination of such value until it is fully paid. Further, considering the distress to which the Vegas were subjected after the unlawful levy on their property, aggravated by their subsequent ouster from it through a writ of possession secured by PDC, the RTC was correct in awarding the Vegas moral damages of P300,000.00, exemplary damages of P30,000.00 and attorney's fees of P50,000.00 plus costs of the suit. But these are to be borne solely by PDC considering that the SSS had nothing to do with the sheriff's levy on the property. It released the title to the PDC simply because it had a sheriff's sale in its favor.

The PDC is, however, entitled to reimbursement from the Vegas of the sum of P37,820.15 that it paid to the SSS for the release of the mortgaged title.

WHEREFORE, the Court GRANTS the petition, REVERSES the assailed decision of the Court of Appeals in CA-G.R. CV 77582 dated August 30, 2007, and in its place DIRECTS respondent Pilar Development Corporation:

> 1. To convey to petitioner spouses Antonio and Leticia Vega the title to and possession of the property subject of this case, covered by Transfer Certificate of Title 56657 of the Register of Deeds of Las Piñas City, for the issuance of a new title in their names; and
>
> 2. To pay the same petitioner spouses moral damages of P300,000.00, exemplary damages of P30,000.00, and attorney's fees of P50,000.00.

On the other hand, the Court DIRECTS petitioner spouses to reimburse respondent Pilar Development Corp. the sum of P37,820.15, representing what it paid the respondent SSS for the release of the mortgaged certificate of title.

SO ORDERED.

Carpio, Peralta, Bersamin,[*] and Perez,[**] JJ., concur.

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[*] Designated as additional member in lieu of Associate Justice Jose Catral Mendoza, per Special Order 886 dated September 1, 2010.

[**] Designated as additional member in lieu of Associate Justice Antonio Eduardo B. Nachura, per Special Order 894 dated September 20, 2010.

[1] Transfer Certificate of Title (TCT) 81689 (later S-91678).

[2] Rollo, p. 59; records, pp. 475-476.

[3] TSN, May 23, 2000, pp. 7-8.

[4] TSN, May 21, 1998, p. 11.

[5] TSN, February 1, 1999, p. 20.

[6] TSN, November 10, 1999, pp. 7-8, 31.

[7] TSN, May 23, 2000, p. 13.

[8] Records, p. 432.

[9] As documented by SSS Special Bank Receipt 733963R.

[10] Records, pp. 23-30.

[11] Payable in 20 years in monthly amortizations and evidenced by a Promissory Note with Authority to Assign Credit dated March 10, 1979; id. at 37-39.

[12] Id. at 38.

[13] See Complaint, id. at 10.

[14] Id. at 468.

[15] Id. at 471.

[16] Id. at 56.

[17] Id. at 56-57.

[18] Id. at 51-52.

[19] Id. at 432.

[20] Id. at 34-36.

[21] Id. at 478.

[22] Id. at 229.

[23] Id. at 546-553; penned by Judge Bonifacio Sanz Maceda.

[24] Rollo, pp. 32-42. Penned by Associate Justice Myrna Dimaranan Vidal and concurred in by Associate

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Justices Jose L. Sabio, Jr. and Jose C. Reyes, Jr.

[25] Id. at 3-30.

[26] Id. at 39.

[27] RULES OF COURT, Rule 130, Sec. 3.

[28] Art. 1237. Whoever pays on behalf of the debtor without the knowledge or against the will of the latter, cannot compel the creditor to subrogate him in his rights, such as those arising from a mortgage, guaranty, or penalty.

[29] Rollo, p. 41.

[30] Cinco v. Court of Appeals, G.R. No. 151903, October 9, 2009, 603 SCRA 108, 118.

[31] Art. 2129. The creditor may claim from a third person in possession of the mortgaged property, the payment of the part of the credit secured by the property which said third person possesses, in the terms and with the formalities which the law establishes.

[32] Teoco v. Metropolitan Bank and Trust Company, G.R. No. 162333, December 23, 2008, 575 SCRA 82, 93.

[33] Special Services Corporation v. Centro La Paz, 206 Phil. 643, 651 (1983).

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