

BANK OF THE PHILIPPINE ISLANDS, AS SUCCESSOR-IN-INTEREST OF FAR EAST BANK & TRUST COMPANY, PETITIONER, VS. CYNTHIA L. REYES, RESPONDENT.

G.R. No. 182769. February 01, 2012

Ponente: LEONARDO-DE CASTRO, J.

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LEONARDO-DE CASTRO, J.:

This is a petition for review on certiorari under Rule 45 of the 1997 Rules of Civil Procedure of the Decision[1] dated April 30, 2008 of the Court of Appeals in CA-G.R. CV No. 88004, entitled "Bank of the Philippine Islands, as successor-in-interest of Far East Bank & Trust Company vs. Cynthia L. Reyes" which reversed the Decision[2] dated November 3, 2005 of the Regional Trial Court (RTC) of Makati City, Branch 148 in Civil Case No. 03-180.

The background facts of this case, as summed by the trial court, follow:

This is an action for sum of money filed [b]y [p]laintiff Bank of the Philippine Islands, hereinafter referred to as BPI, as successor-in-interest of Far East Bank & Trust Company, referred hereto as Far East Bank, against defendant Cynthia L. Reyes, hereinafter referred to as defendant Reyes.

As alleged in the Complaint, defendant Reyes borrowed, renewed and received from Far East Bank the principal of Twenty Million Nine Hundred Thousand Pesos [sic] (P20,950,000.00). In support of such allegation, four promissory notes were presented during the course of the trial of the case. As security for the obligation, defendant Reyes executed Real Estate Mortgage Agreements involving twenty[-]two (22) parcels of land. When the debt became due and demandable, the defendant failed to settle her obligation and the plaintiff was constrained to foreclose the properties. As alleged, after due publication, the mortgaged properties were sold at public auction on December 20, 2001 by the Office of the Clerk of Court & Ex-Officio Sheriff of the Regional Trial Court of Malolos, Bulacan.

At the public auction, the mortgaged properties were awarded to BPI in consideration of its highest bid price amounting to Nine Million Thirty[-]Two Thousand Nine Hundred Sixty Pesos (P9,032,960.00). On said date, the obligation already reached Thirty Million Forty (sic) Hundred Twenty Thousand Forty[-]One & 67/100 Pesos (P30,420,041.67), inclusive of interest but excluding attorney's fees, publication and other charges. After applying the proceeds of the public auction to the outstanding obligation, there remains to be a deficiency and defendant Reyes is still indebted, as of January 20, 2003, to the plaintiff in the amount of P24,545,094.67, broken down as follows:

Principal

P19,700,000.00

Unsatisfied Interest

2,244,694.67

Interest

2,383,700.00

Penalty

216,700.00

TOTAL

P24,545,094.67

Also included in the prayer of the plaintiff is the payment of attorney's fees of at least Five Hundred Thousand Pesos and the cost of suit.

In the Answer, the defendant claims that based on the plaintiff's appraisal of the properties mortgaged to Far East Bank, the twenty[-]two properties fetched a total appraisal value of P47,436,000.00 as of January 6, 1998. This appraisal value is evidenced by the Appraisal, which is attached as Annex 1 of the Answer. Considering the appraisal value and the outstanding obligation of the defendant, it appears that the mortgaged properties sold during the public auction are more than enough as payment to the outstanding obligation of the defendant.[3]

Subsequently, upon petitioner's motion, the trial court issued an Order[4] dated October 6, 2005 recognizing Asset Pool A (SPV-AMC), Inc. as substitute plaintiff in lieu of petitioner.

After due trial, the trial court rendered its Decision dated November 3, 2005, the dispositive portion of which states:

WHEREFORE, premises considered, judgment is hereby rendered in favor of plaintiff BANK OF THE PHILIPPINE ISLANDS, as successor-in-interest of Far East Bank & Trust Company, and against defendant CYNTHIA L. REYES. Accordingly, the defendant is ordered:

1. To pay the plaintiff the amount of Php22,083,700.00, representing said defendant's outstanding obligation, plus interest at the rate of twelve percent (12%) per annum, computed from January 20, 2003 until the whole amount is fully paid;
2. To pay plaintiff the amount of Php200,000.00 as attorney's fees;
3. Costs of suit against the defendant.[5]

Respondent filed a motion for reconsideration but the same was denied by the trial court through an Order[6] dated January 9, 2006.

An appeal with the Court of Appeals was filed by respondent. This resulted in a reversal of the trial court's judgment via an April 30, 2008 Decision by the Court of Appeals, the dispositive portion of which states:

WHEREFORE, the instant appeal is GRANTED. The assailed Decision dated November 3, 2005 is hereby REVERSED AND SET ASIDE.[7]

Aggrieved, petitioner filed the instant petition in which the following issues were put into consideration:

- WHETHER OR NOT THERE WAS DEFICIENCY WHEN RESPONDENT'S PROPERTY WHICH SHE

SUPPOSEDLY VALUED AT P47,536,000.00 WAS SOLD AT THE EXTRA-JUDICIAL FORECLOSURE SALE AT ONLY [P9,032,960.00] BY PETITIONER;

- WHETHER OR NOT RESPONDENT'S PROPERTY WAS OVERVALUED WHEN IT WAS MORTGAGED TO FEBTC/BPI;

- WHETHER OR NOT RESPONDENT CAN RAISE THE ISSUE ON THE NULLITY OF THE EXTRA-JUDICIAL FORECLOSURE SALE IN AN ACTION FILED BY THE PETITIONER (CREDITOR-MORTGAGEE) FOR THE RECOVERY OF DEFICIENCY AND FOR THE FIRST TIME ON APPEAL;

- WHETHER OR NOT THE PRICE OF P9,032,960.00 FOR RESPONDENT'S PROPERTY AT THE EXTRAJUDICIAL FORECLOSURE SALE WAS UNCONCIONABLE OR SHOCKING TO THE CONSCIENCE OR GROSSLY INADEQUATE.

- WHETHER OR NOT THE PETITION RAISES QUESTIONS OF LAW AND THE QUESTIONS OF FACT RAISED FALL WITHIN THE EXCEPTIONS TO THE RULE THAT ONLY QUESTIONS OF LAW MAY BE REVIEWED BY THIS HONORABLE COURT UNDER RULE 45 OF THE RULES OF COURT.[8]

On the other hand, respondent submits the following issues:

Whether or not the Court of Appeals erred in ruling that there exists no deficiency owed by mortgagor-debtor as the mortgagee-creditor bank acquired the mortgaged property at the foreclosure sale worth P47,536,000 at only P9,032,960;

Whether or not the Court of Appeals erred in ruling that the properties of the respondent were not overvalued at P47,536,000;

Whether or not the Court of Appeals erred in entertaining the issue that the foreclosure sale was null and void;

Whether or not the Court of Appeals erred in ruling that the purchase price of P9,032,000 at the foreclosure sale of respondent's mortgaged properties was unconscionable or grossly inadequate.[9]

After consideration of the issues and arguments raised by the opposing sides, the Court finds the petition meritorious.

Stripped of surplusage, the singular issue in this case is whether or not petitioner is entitled to recover the unpaid balance or deficiency from respondent despite the fact that respondent's property, which were appraised by petitioner's predecessor-in-interest at P47,536,000.00, was sold and later bought by petitioner in an extrajudicial foreclosure sale for only P9,032,960.00 in order to satisfy respondent's outstanding obligation to petitioner which, at the time of the sale, amounted to P30,420,041.67 inclusive of interest but excluding attorney's fees, publication and other charges.

There is no dispute with regard to the total amount of the outstanding loan obligation that respondent owed to petitioner at the time of the extrajudicial foreclosure sale of the property subject of the real estate mortgage. Likewise, it is uncontested that by subtracting the amount obtained at the sale of the property, a loan balance still remains. Petitioner merely contends that, contrary to the ruling of the Court of Appeals, it has the right to collect from the respondent the remainder of her obligation after deducting the amount obtained from the extrajudicial foreclosure sale. On the other hand, respondent avers that since petitioner's predecessor's own valuation of the subject property shows that its value is more than the amount of respondent's outstanding obligation, then respondent cannot be held liable for the balance especially because it was petitioner who bought the property at the foreclosure sale.

In the recent case of *BPI Family Savings Bank, Inc. v. Avenido*,^[10] we reiterated the well-entrenched rule that a creditor is not precluded from recovering any unpaid balance on the principal obligation if the extrajudicial foreclosure sale of the property subject of the real estate mortgage results in a deficiency, to wit:

It is settled that if "the proceeds of the sale are insufficient to cover the debt in an extrajudicial foreclosure of mortgage, the mortgagee is entitled to claim the deficiency from the debtor. While Act No. 3135, as amended, does not discuss the mortgagee's right to recover the deficiency, neither does it contain any provision expressly or impliedly prohibiting recovery. If the legislature had intended to deny the creditor the right to sue for any deficiency resulting from the foreclosure of a security given to guarantee an obligation, the law would expressly so provide. Absent such a provision in Act No. 3135, as amended, the creditor is not precluded from taking action to recover any unpaid balance on the principal obligation simply because he chose to extrajudicially foreclose the real estate mortgage."^[11]

Furthermore, we have also ruled in *Suico Rattan & Buri Interiors, Inc. v. Court of Appeals*^[12] that, in deference to the rule that a mortgage is simply a security and cannot be considered payment of an outstanding obligation, the creditor is not barred from recovering the deficiency even if it bought the mortgaged property at the extrajudicial foreclosure sale at a lower price than its market value notwithstanding the fact that said value is more than or equal to the total amount of the debtor's obligation. We quote from the relevant portion of said decision:

Hence, it is wrong for petitioners to conclude that when respondent bank supposedly bought the foreclosed properties at a very low price, the latter effectively prevented the former from satisfying their whole obligation. Petitioners still had the option of either redeeming the properties and, thereafter, selling the same for a price which corresponds to what they claim as the properties' actual market value or by simply selling their right to redeem for a price which is equivalent to the difference between the supposed market value of the said properties and the price obtained during the foreclosure sale. In either case, petitioners will be able to recoup the loss they claim to have suffered by reason of the inadequate price obtained at the auction sale and, thus, enable them to settle their obligation with respondent bank. Moreover, petitioners are not justified in concluding that they should be considered as having paid their obligations in full since respondent bank was the one who acquired the mortgaged properties and that the price it paid was very inadequate. The fact that it is respondent bank, as the mortgagee, which eventually acquired the mortgaged properties and that the bid price was low is not a valid reason for petitioners to refuse to pay the remaining balance of their obligation. Settled is the rule that a mortgage is simply a security and not a satisfaction of indebtedness.^[13] (Emphases supplied.)

We are aware of our earlier pronouncements in *Cometa v. Court of Appeals*^[14] and in *Rosales v. Court of Appeals*^[15] which were cited by the Court of Appeals in its assailed April 30, 2008 Decision, wherein we declared that a sale price which is equivalent to more or less twelve percent (12%) of the value of the property is shockingly low, unconscionable and grossly inadequate, thus, warranting a nullification of the foreclosure sale. In both cases, we declared that where the inadequacy of the price is purely shocking to the conscience, such that the mind revolts at it and such that a reasonable man would neither directly nor indirectly be likely to consent to it, the sale shall be declared null and void. On the other hand, we are likewise reminded of our ruling in *Cortes v. Intermediate Appellate Court*^[16] and in *Ponce De Leon v. Rehabilitation Finance Corporation*^[17] wherein we upheld the validity of foreclosure sales in which the property subject thereof were sold at 11% and 17%, respectively, of their value.

In the case at bar, the winning bid price of P9,032,960.00 is nineteen percent (19%) of the appraised value of the property subject of the extrajudicial foreclosure sale that is pegged at P47,536,000.00 which amount, notably, is only an arbitrary valuation made by the appraising officers of petitioner's predecessor-in-interest ostensibly for loan purposes only. Unsettled questions arise over the correctness of this valuation in light of conflicting evidence on record.

Notwithstanding the doubtful validity of the valuation of the property at issue, the resolution of which is a question of fact that we are precluded from addressing at this juncture of the litigation, and confronted by the divergent jurisprudential benchmarks which define what can be considered as shockingly or unconscionably low price in a sale of property, we, nevertheless, proceed to adjudicate this case on an aspect in which it is most plain and unambiguous - that it involves a forced sale with a right of redemption.

Throughout a long line of jurisprudence, we have declared that unlike in an ordinary sale, inadequacy of the price at a forced sale is immaterial and does not nullify a sale since, in a forced sale, a low price is more beneficial to the mortgage debtor for it makes redemption of the property easier.[18]

In the early case of *The National Loan and Investment Board v. Meneses*,[19] we also had the occasion to state that:

As to the inadequacy of the price of the sale, this court has repeatedly held that the fact that a property is sold at public auction for a price lower than its alleged value, is not of itself sufficient to annul said sale, where there has been strict compliance with all the requisites marked out by law to obtain the highest possible price, and where there is no showing that a better price is obtainable. (*Government of the Philippines vs. De Asis*, G. R. No. 45483, April 12, 1939; *Guerrero vs. Guerrero*, 57 Phil., 442; *La Urbana vs. Belando*, 54 Phil., 930; *Bank of the Philippine Islands v. Green*, 52 Phil., 491.)[20] (Emphases supplied.)

In *Hulst v. PR Builders, Inc.*,[21] we further elaborated on this principle:

[G]ross inadequacy of price does not nullify an execution sale. In an ordinary sale, for reason of equity, a transaction may be invalidated on the ground of inadequacy of price, or when such inadequacy shocks one's conscience as to justify the courts to interfere; such does not follow when the law gives the owner the right to redeem as when a sale is made at public auction, upon the theory that the lesser the price, the easier it is for the owner to effect redemption. When there is a right to redeem, inadequacy of price should not be material because the judgment debtor may re-acquire the property or else sell his right to redeem and thus recover any loss he claims to have suffered by reason of the price obtained at the execution sale. Thus, respondent stood to gain rather than be harmed by the low sale value of the auctioned properties because it possesses the right of redemption. x x x[22] (Emphasis supplied.)

It bears also to stress that the mode of forced sale utilized by petitioner was an extrajudicial foreclosure of real estate mortgage which is governed by Act No. 3135, as amended. An examination of the said law reveals nothing to the effect that there should be a minimum bid price or that the winning bid should be equal to the appraised value of the foreclosed property or to the amount owed by the mortgage debtor. What is clearly provided, however, is that a mortgage debtor is given the opportunity to redeem the foreclosed property "within the term of one year from and after the date of sale." [23] In the case at bar, other than the mere inadequacy of the bid price at the foreclosure sale, respondent did not allege any irregularity in the foreclosure proceedings nor did she prove that a better price could be had for her property under the circumstances.

Thus, even if we assume that the valuation of the property at issue is correct, we still hold that the inadequacy of the price at which it was sold at public auction does not invalidate the foreclosure sale.

Even if we are so inclined out of sympathy for respondent's plight, neither could we temper respondent's liability to the petitioner on the ground of equity. We are barred by our own often repeated admonition that equity, which has been aptly described as "justice outside legality," is applied only in the absence of, and never against, statutory law or judicial rules of procedure.[24] The law and jurisprudence on the matter is clear enough to close the door on a recourse to equity.

Moreover, we fail to see any unjust enrichment resulting from upholding the validity of the foreclosure sale and of

the right of the petitioner to collect any deficiency from respondent. Unjust enrichment exists "when a person unjustly retains a benefit to the loss of another, or when a person retains money or property of another against the fundamental principles of justice, equity and good governance." [25] As discussed above, there is a strong legal basis for petitioner's claim against respondent for the balance of her loan obligation.

WHEREFORE, premises considered, the petition is hereby GRANTED. The assailed Decision dated April 30, 2008 of the Court of Appeals in CA-G.R. CV No. 88004 is REVERSED and SET ASIDE. The RTC's November 3, 2005 Decision in Civil Case No. 03-180 is hereby REINSTATED.

SO ORDERED.

Corona, C.J., (Chairperson), Bersamin, Del Castillo, and Villarama, Jr., JJ., concur.

[1] Rollo, pp. 9-20; penned by Associate Justice Vicente S.E. Veloso with Associate Justices Rebecca De Guia-Salvador and Apolinario D. Bruselas, Jr., concurring.

[2] Id. at 132-137.

[3] Id. at 132-133.

[4] Id. at 131.

[5] Id. at 137.

[6] Id. at 138-140.

[7] Id. at 19.

[8] Id. at 404-405.

[9] Id. at 372.

[10] G.R. No. 175816, December 7, 2011.

[11] Id.

[12] G.R. No. 138145, June 15, 2006, 490 SCRA 560.

[13] Id. at 579-580.

[14] 404 Phil. 107 (2001).

[15] 405 Phil. 638 (2001).

[16] 256 Phil. 979 (1989).

[17] 146 Phil. 862 (1970).

[18] *New Sampaguita Builders Construction Inc. v. Philippine National Bank*, 479 Phil. 483, 514-515 (2004); *The Abaca Corporation of the Phils. v. Garcia*, 338 Phil. 988, 993 (1997); *Gomez v. Gealone*, G.R. No. 58281, November 13, 1991, 203 SCRA 474, 486; *Prudential Bank v. Martinez*, G.R. No. 51768, September 14, 1990, 189 SCRA 612, 617; *Francia v. Intermediate Appellate Court*, 245 Phil. 717, 726 (1988); *Vda. De Gordon v. Court of Appeals*, 196 Phil. 159, 165 (1981).

[19] 67 Phil. 498 (1939).

[20] Id. at 500.

[21] G.R. No. 156364, September 3, 2007, 532 SCRA 74.

[22] Id. at 103-104.

[23] Section 6, Act No. 3135, as amended.

[24] Cheng v. Donini, G.R. No. 167017, June 22, 2009, 590 SCRA 406, 414.

[25] Philippine Realty and Holdings Corporation v. Ley Construction and Development Corporation, G.R. Nos. 165548 & 167879, June 13, 2011, 651 SCRA 719, 749-750.

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