

BANCO DE ORO UNIBANK, INC., PETITIONER, VS. VTL REALTY, INC., RESPONDENT.*G.R. No. 193499. April 23, 2018*Read online (full-text search, related cases, audio case brief): <https://batas.org/library/g-r-no-193499/>**REYES, JR., J:**

The following facts gave rise to the present controversy.

Victor T. Bollozos (Bollozos) was the registered owner of a parcel of land with a building situated at Barangay Guizo, Mandaue City, and covered by TCT No. 12892. He mortgaged his property to petitioner Banco de Oro Unibank, Inc. (BDO) to secure the loan of World's Arts & Crafts, Inc.[1]

On August 12, 1994, Bollozos sold the property to VTL Realty Corporation (VTL) and A Deed of Definite Sale with Assumption of Mortgage was executed between the parties. However, BDO refused to accept VTL's payment as it does not recognize VTL as the new owner of the property. For BDO, the loan obligation that Bollozos and/or World's Arts and Crafts, Inc. contracted should be settled prior to any change in the ownership of the mortgaged property. This led VTL to institute an action for specific performance with damages against BDO with the Regional Trial Court (RTC) of Cebu City. In the course of the proceedings, the obligation remained unpaid, prompting BDO to foreclose the real estate mortgage on March 29, 1995. A Certificate of Sale was issued to BDO as the lone bidder at the auction sale. Upon the expiration of the redemption period with no redemption being made, BDO consolidated ownership over the property.[2]

On January 6, 1997, the RTC rendered a Decision[3] directing BDO to furnish VTL with Bollozos and/or World's Arts and Crafts Inc.'s new Statement of Account based on the Statement of Account dated August 12, 1994, plus the corresponding interests and penalty charges that have accrued thereafter. By the same token, VTL was directed to assume and pay Bollozos' obligation to BDO upon receipt of such Statement of Account.[4] VTL appealed the RTC judgment to the Court of Appeals (CA), which affirmed the same in a Decision[5] dated May 26, 2004. Thereafter, an Entry of Judgment[6] was issued.

Separate motions for execution were filed by BDO and VTL. During the hearing set on March 28, 2007, BDO submitted a Statement of Account[7] showing that the total obligation of Victor Bollozos and/or World's Arts & Crafts, Inc. amounted to P41,769,596.94 as of March 16, 2007.

VTL filed a Motion to Order Defendant to Correct Statement of Account,[8] praying that BDO be ordered to compute interests and penalties due only up to April 28, 1995, which is the date of registration of the Certificate of Sale. This is based allegedly on *Development Bank of the Philippines vs. Zaragoza* (DBP vs. Zaragoza).

Ruling of the RTC

Through its Order[9] dated June 19, 2007, the RTC granted VTL's motion based on its interpretation of *DBP vs. Zaragoza*. [10] Consequently, it ruled in its Order[11] dated January 25, 2008 that the amount to be paid by VTL is P6,631,840.95 corresponding to the principal, interests, and penalty charges as of April 28, 1995.

However, upon BDO's motion for reconsideration, the RTC reversed its previous stance and issued an Order[12]

dated March 14, 2008. BDO was then directed to show how it computed the amount reflected in its Statement of Account, to which BDO complied with. In an Order[13] dated January 8, 2009, the RTC resolved that BDO's computation was in accordance with its Decision dated January 6, 1997 and thus, decreed:

Accordingly, the amount payable by [VTL] to [BDO] as of March 16, 2007 is [P]41,769,596.94.

SO ORDERED.[14]

VTL filed a motion for reconsideration, which the RTC denied in its Order[15] dated June 3, 2009. Consequently, VTL lodged a petition for certiorari with the CA.

Ruling of the CA

On May 31, 2010, the CA promulgated its Decision,[16] reversing the RTC Order. The fallo of the Decision reads:

WHEREFORE, on the view above taken, judgment is hereby rendered GRANTING the petition. The assailed Order dated January 8, 2009, rendered by the Regional Trial Court, Branch 58, Cebu City in Civil Case No. CEB-16554 and its subsequent Order dated June 3, 2009, are hereby SET ASIDE. The Order dated January 25, 2008 is hereby REINSTATED.

SO ORDERED.[17]

Per the CA's construal of DBP vs. Zaragoza, the counting of interest must stop once the foreclosure proceedings have been completed by the execution, acknowledgment, and recording of the Certificate of Sale in favor of the purchaser.[18] The CA also affirmed VTL's reliance on PNB vs. CA,[19] which according to it reiterated the pronouncement in DBP vs. Zaragoza.

The CA concluded that the reckoning of the applicable interests and penalty charges should be computed only up to April 28, 1995, or the date of registration of the Certificate of Sale.[20] Following this manner of computation, VTL was being made liable to pay only P6,631,840.95 versus BDO's calculation of P41,769,596.94 as of March 16, 2007.

The CA denied BDO's motion for reconsideration, through its Resolution[21] dated August 18, 2010.

BDO argues that the CA violated the principle of immutability of judgments when it rendered the assailed Decision despite the finality of its Decision dated May 26, 2004.[22]

Hence, BDO's present recourse to the Court.

Ruling of the Court

The petition is meritorious.

The CA, in ruling in favor of VTL, surmised that DBP vs. Zaragoza finds application in the present case "as it settles the question of whether interest may be properly charged to the mortgagor after the completion of the foreclosure sale." [23] However, this synthesis is misplaced.

In DBP vs. Zaragoza, the real estate mortgage executed by the Zaragozas was extrajudicially foreclosed by DBP. Four years later, the property was sold in a public auction but resulted to a deficiency. When DBP sued for the balance with interests, the Zaragozas argued that from the date of the foreclosure to the sale of the foreclosed property, the mortgagor is no longer liable for the interest on the loan.[24] Finding that the delay in the sale was of the Zaragozas' own doing, the Court adjudged them liable for interests. Also, the Court held that prior to the sale, the foreclosure proceedings cannot be considered as complete, thus, the mortgagor's interest in the

mortgaged property subsists and he is liable for interest thereon. Quoted below is the Court's elucidation on the matter, which VTL cited:

x x x it must be noted that a foreclosure of mortgage means the termination of all rights of the mortgagor in the property covered by the mortgage. It denotes the procedure adopted by the mortgagee to terminate the rights of the mortgagor on the property and includes the sale itself. In judicial foreclosures, the "foreclosure" is not complete until the Sheriff's Certificate is executed, acknowledged and recorded. In the absence of a Certificate of Sale, no title passes by the foreclosure proceedings to the vendee. It is only when the foreclosure proceedings are completed and the mortgaged property sold to the purchaser that all interests of the mortgagor are cut off from the property. This principle is applicable to extrajudicial foreclosures. Consequently, in the case at bar, prior to the completion of the foreclosure, the mortgagor is, therefore, liable for the interest on the mortgage.[25]

A closer look at *DBP vs. Zaragoza* reveals the issue is whether a mortgagor is liable for interests from the date of the foreclosure to the date of sale of the property. This is so because it took a period of four years for the Zaragozas' property to be sold in auction from the time it was extrajudicially foreclosed. This is inapropos to the instant case, where VTL seeks to recover a property that BDO already owns.

In *PNB vs. CA*,[26] the issue pertains to the redemption price which the mortgagor should pay to redeem the foreclosed property. PNB contended that the redemptioner should be made to pay the interests and charges specified in the mortgage, on top of the purchase price, computed from the time of the auction sale up to the date the mortgaged property is redeemed. Citing *DBP v. Zaragoza*, the Court held that after the auction sale, the redemptioner mortgagor is no longer bound to pay the interest agreed upon in the contract of mortgage, consistent with the rules provided under Act No. 3135, as amended, which was then the governing law for extrajudicial foreclosure of all real estate mortgages and which provides for the computation of redemption price. Thus:

Since the applicable law is Act 3135, the provisions of Section 30, Rule 39, Rules of Court shall be determinative of the sole issue presented in this case. Section 6 of Act 3135, as amended by Act 4018, provides:

x x x x

Sec. 6. - In all cases in which an extrajudicial sale is made under the special power hereinbefore referred to, the debtor, his successors in interest or any judicial creditor or judgment creditor of said debtor, or any person having a lien on the property subsequent to the mortgage or deed of trust under which the property is sold, may redeem the same at any time within the term of one year from and after the date of the sale; and such redemption shall be governed by the provisions of sections four hundred and sixty-four, inclusive, of the Code of Civil Procedure, in so far as these are not inconsistent with the provision of this Act.

Section hundred sixty-four to four hundred sixty-six inclusive, of the Code of Civil Procedure, became Sections 29, 30, and 34 of Rule 39 of our Rules of Court. The same sections were reiterated in the Revised Rules of Court in July 1964 (*Co vs. PNB*, supra).

Pursuant to Section 30 of Rule 39, the redemptioner, who is the private respondent herein, "may redeem the property from the purchaser at any time within twelve (12) months after the sale, on paying the purchaser the amount of his purchase, with one per centum per month interest thereon in addition, up to the time of redemption, together with the amount of any assessments or taxes which the purchaser may have paid therein after purchase and interest on such last named amount at the same interest rate; ..."

x x x x

This would rightfully be so because, as stated in the case of *DBP vs. Zaragosa*, supra, when the foreclosure proceedings are completed and the mortgaged property is sold to the purchaser then all interest of the

mortgagor are cut off from the property. Prior to the completion of the foreclosure, the mortgagor is liable for the interests on the mortgage. However, after the foreclosure proceedings and the execution of the corresponding certificate of sale of the property sold at public auction in favor of the successful bidder, the redemptioner mortgagor would be bound to pay only for the amount of the purchase price with interests thereon at the rate of one per centum per month in addition up to the time of redemption, together with the amount of any assessments or taxes which the purchaser may have paid thereon after the purchase and interest on such last named amount at the same rate.[27] (Emphasis ours)

In the present case, there is no redemption price to speak of, since no right of redemption was exercised. As the RTC found, VTL neither made a tender of payment nor did it deposit any amount, if only to stop the running of interest and imposition of penalty charges.[28] VTL also did not make an effort pending the redemption period to redeem the property from BDO, who became the absolute owner thereof. What VTL undoubtedly wants is to purchase the property from BDO, not to redeem it, since the period for redemption has already lapsed. Clearly, PNB vs. CA, like DBP vs. Zaragoza, is inapplicable to VTL's situation.

Apart from the foregoing, it must be recalled that VTL did not appeal from the CA Decision dated May 26, 2004, which affirmed the RTC's disposition that the amount to be paid by VTL shall be based on the Statement of Account dated August 12, 1994, plus the corresponding interests and penalty charges that have accrued thereafter. The CA further explained therein that VTL has no right over the mortgaged property since it did not settle the obligation it assumed, viz:

x x x it is imperative that tender of payment must be made in order to stop the running of interest and imposition of penalty charges. It is not enough that they merely allege that they are interested but it is important that payment should be made. The only way that the mortgage could be released is by settling all the outstanding balance of Mr. Bollozos in order for the property to be free from all encumbrances.

x x x x

It is preposterous for [VTL] to assume that they have a right over the property by virtue of their execution of the deed of sale with Mr. Bollozos. Upon expiration of the redemption period on April 28, 1996, the subject property now forms part of the Bank's foreclosed assets. Had [VTL] immediately settled the outstanding amount due in behalf of Mr. Bollozos, and not question the stipulations, terms and conditions embodied in the real estate mortgage agreement between Mr. Bollozos and Banco de Oro, this case would not have reached the courts and the property would have been immediately transferred in [VTL's] name.[29]

Curiously, the CA did not stand by its above-quoted final and executory decision, the incidents of which may no longer be questioned. "It is axiomatic that final and executory judgments can no longer be attacked by any of the parties or be modified, directly or indirectly, even by the highest court of the land." [30] "The noble purpose is to write finis to dispute once and for all. This is a fundamental principle in our justice system, without which there would be no end to litigations." [31]

WHEREFORE, the petition is GRANTED. The Court of Appeals' Decision dated May 31, 2010 and the Resolution dated August 18, 2010 in CA-G.R. SP. No. 04309 are hereby REVERSED and SET ASIDE. The Orders dated January 8, 2009 and June 3, 2009 of the Regional Trial Court, Branch 58, Cebu City in Civil Case No. CEB-16554 are hereby REINSTATED.

SO ORDERED.

Carpio,[*] Acting C. J., (Chairperson), Peralta, Perlas-Bernabe, and Caguioa, JJ., concur.

[*] Acting Chief Justice per Special Order No. 2539, dated February 28, 2018.

[1] Rollo, p. 11.

[2] Id. at 11-12.

[3] Penned by Judge Jose P. Soberano, Jr. Id. at 56-74.

[4] Id. at 73-74.

[5] Penned by Associate Justice Arsenio J. Magpale, with Associate Justices Pampio A. Abarintos and Ramon M. Bato, Jr., concurring; id. at 76-82.

[6] Id. at 136.

[7] Id. at 83.

[8] Id. at 151-153.

[9] Id. at 84-85.

[10] 174 Phil. 153 (1978).

[11] Issued by then Presiding Judge Gabriel T. Ingles (now Executive Justice of the Court of Appeals); id. at 87-88.

[12] Id. at 89-97.

[13] Id. at 98-105.

[14] Id. at 105.

[15] Id. at 106.

[16] Penned by Associate Justice Edwin D. Sorongon, with Associate Justices Socorro B. Inting and Eduardo B. Peralta, Jr.; id. at 45-53.

[17] Id. at 53.

[18] Id. at 52.

[19] 224 Phil. 499 (1985).

[20] Rollo, p. 52

[21] Id. at 54-55.

[22] Id. at 19.

[23] Id. at 51.

[24] Supra note 19, at 505.

[25] Id. at 51-52.

[26] Supra note 19, at 503.

[27] Id. at 504-505.

[28] Rollo, p. 101.

[29] Id. at 80-81.

[30] City Government of Makati v. Odeña, 716 Phil. 284, 311 (2013).

[31] One Shipping Corp., and/or One Shipping Kabushiki Kaisha/Japan v. Penafiel, 751 Phil. 204, 211 (2015).

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