

Title: Mobil Oil Philippines, Inc. v. Diocares, G.R. No. L-24771, January 30, 1970

Facts:

1. **Initial Agreement:** On February 9, 1965, Ruth R. Diocares and Lope T. Diocares entered into a contract of loan and real estate mortgage with Mobil Oil Philippines, Inc. The loan extended was for the amount of PHP 45,000.
2. **Obligations Under the Contract:** The defendants also agreed to purchase a minimum of 50,000 liters of petroleum products monthly on a cash basis from the plaintiff. The defendants further agreed to pay 9.5% annual interest on the diminishing balance of the loan, repaid in monthly installments of PHP 950.88 for five years.
3. **Security for Loan:** The loan was secured by a first mortgage on two parcels of land in Bacolod City covered by Transfer Certificates of Title Nos. T-27136 and T-27946.
4. **Default:** The defendants only paid PHP 1,901.76, leaving an outstanding balance of PHP 43,098.24, excluding interest, and failed to buy the minimum amount of petroleum products.
5. **Plaintiff's Action:** Plaintiff sought to recover the outstanding balance and, in default, to foreclose the mortgage.
6. **Defendants' Response:** Defendants admitted the debt but claimed they sought an extension and requested a statement of accounts to pay on an installment basis, which was not granted by the plaintiff.
7. **Motion for Judgment on the Pleadings:** Mobil Oil moved for and was granted a judgment on the pleadings by the lower court, as the defendants' answer did not raise issues against the allegations of the complaint.
8. **Lower Court Ruling:** The court ordered the defendants to pay the debt but refused foreclosure, reasoning that the mortgage was not recorded and thus merely created a personal obligation and not a real estate mortgage under Art. 2125 of the Civil Code.
9. **Appeal:** Plaintiff appealed the refusal to foreclose the mortgage.

Issues:

1. **Whether a real estate mortgage not registered is binding between the parties**

concerned.**

2. **Whether the lower court erred in not ordering the foreclosure of the mortgaged properties due to non-registration.**

Court's Decision:

1. **Existence of Real Estate Mortgage Between Parties:**

- The Supreme Court held that, under Article 2125 of the Civil Code, a mortgage, even if unregistered, remains binding between the parties. The document need not be recorded for the mortgage to be valid between them.
- The lower court misinterpreted Art. 2125 by concluding that the agreement only created a personal obligation. Instead, the binding nature of the mortgage between contracting parties remains intact despite non-registration.

2. **Right to Foreclose:**

- The Supreme Court emphasized that the phrase "the mortgage is nevertheless binding between the parties" meant that all consequences and obligations of a mortgage apply, and thus, foreclosure is permissible.
- The purpose of registration is to bind third parties and affect the public registry, but non-registration does not void the contract between the original parties.

3. **Affirmation with Modification:**

- The Supreme Court affirmed the lower court's order in favor of the plaintiff with modifications to include default foreclosure. The defendants were held liable to pay PHP 43,098.24 plus interest from the date of the complaint, and the mortgage was ordered to be foreclosed if the debt was not paid.

Doctrine:

- **Binding Effect of an Unregistered Mortgage:** According to Art. 2125 of the Civil Code, a mortgage that is not recorded in the Registry of Property is nevertheless binding between the parties involved. Non-registration does not invalidate the existence of the mortgage or prevent foreclosure between original contracting parties.

Class Notes:

- **Key Elements of a Mortgage under Civil Code:**
- **Art. 2125:** Emphasizes that for a mortgage to be validly constituted, it must be

recorded, but unregistered mortgages remain binding between the parties.

- **Foreclosure Rights:** A creditor may foreclose on an unregistered mortgage if the debtor defaults, reaffirming contractual obligations irrespective of public recording.
- **Personal vs. Real Obligation:** Even without registration, an agreement can constitute a real mortgage, affecting the parties' property rights.

Historical Background:

- **Civil Code Influence:** The New Civil Code of the Philippines (effected in 1950) draws from both civil law traditions and common law principles, mixing European civil law influences with American statutory doctrines.
- **19th Century Jurisprudence:** The case reflects the interplay between civil and common law views on contracts and obligations, notably influenced by American legal thoughts, such as the principle from works like the Restatement of Contracts, shaping Philippine contractual law.

This case reiterates the importance attached to fulfilling contractual promises and the judicial interpretation securing the enforcement of such agreements, preserving the sanctity of contracts within the bounds of equity and fairness.