THIRD DIVISION

[G.R. NO. 144101, September 16, 2005]

ANTONIO P. TAMBUNTING, JR. AND COMMERCIAL HOUSE OF FINANCE, INC., PETITIONERS, VS. SPOUSES EMILIO SUMABAT AND ESPERANZA BAELLO, RESPONDENTS.

D E C I S I O N

CORONA, J.

This petition for review on certiorari under Rule 45 of the Rules of Court assails the February 11, 2000 decision of the Regional Trial Court (RTC) of Caloocan City, Branch 120, in Civil Case No. C-16822.

This case involves a dispute over a parcel of land situated in Caloocan City covered by TCT No. (87655) 18837. It was previously registered in the names of respondents, spouses Emilio Sumabat and Esperanza Baello. On May 3, 1973, respondents mortgaged it to petitioner Antonio Tambunting, Jr. to secure the payment of a P7,727.95 loan. In August 1976, respondents were informed that their indebtedness had ballooned to P15,000 for their failure to pay the monthly amortizations. In May 1977, because respondents defaulted in their obligation, petitioner Commercial House of Finance, Inc. (CHFI), as assignee of the mortgage, initiated foreclosure proceedings on the mortgaged property but the same did not push through. It was restrained by the then Court of First Instance (CFI) of Caloocan City, Branch 33 (now RTC Branch 123) in Civil Case No. C-6329, a complaint for injunction filed by respondents against petitioners. However, the case was subsequently dismissed for failure of the parties to appear at the hearing on November 9, 1977.

On March 16, 1979, respondents filed an action for declaratory relief with the CFI of Caloocan City, Branch 33, seeking a declaration of the extent of their actual indebtedness. It was docketed as Civil Case No. C-7496. Petitioners were declared in default for failure to file an answer within the reglementary period. They moved for the dismissal of the action on the ground that its subject, the mortgage deed, had already been breached prior to the filing of the action. The motion was denied for having been filed out of time and petitioners had already been declared in default.

On January 8, 1981, the CFI rendered its decision. It fixed respondents' liability at P15,743.83 and authorized them to consign the amount to the court for proper disposition. In compliance with the decision, respondents consigned the required amount on January 9, 1981.

In March 1995, respondents received a notice of sheriff's sale indicating that the mortgage had been foreclosed by CHFI on February 8, 1995 and that an extrajudicial sale of the property would be held on March 27, 1995.

On March 27, 1995, respondents instituted Civil Case No. C-16822, a petition for preliminary injunction, damages and cancellation of annotation of encumbrance with prayer for the issuance of a temporary restraining order, with the RTC of Caloocan City, Branch 120. However, the public auction scheduled on that same day proceeded and the property was sold to CHFI as the highest bidder. Respondents failed to redeem the property during the redemption period. Hence, title to the property was consolidated in favor of CHFI and a new certificate of title (TCT No. 310191) was issued in its name. In view of these developments, respondents amended their complaint to an action for nullification of foreclosure, sheriff's sale and consolidation of title, reconveyance and damages.

On February 11, 2000, the RTC issued the assailed decision. It ruled that the 1981 CFI decision in Civil Case No. C-7496 (fixing respondents' liability at P15,743.83 and authorizing consignation) had long attained finality. The mortgage was extinguished when respondents paid their indebtedness by consigning the amount in court. Moreover, the ten-year period within which petitioners should have foreclosed the property was already barred by prescription. They abused their right to foreclose the property and exercised it in bad faith. As a consequence, the trial court nullified the foreclosure and extrajudicial sale of the property, as well as the consolidation of title in CHFI's name in 1995. It then ordered the register of deeds of Caloocan City to cancel TCT No. 310191 and to reconvey the property to respondents. It also held petitioners liable for moral damages, exemplary damages and attorney's fees.

Petitioners moved for a reconsideration of the trial court's decision but it was denied. Hence, this petition.

Petitioners claim that the trial court erred when it affirmed the validity of the consignation. They insist that the CFI was barred from taking cognizance of the action for declaratory relief since, petitioners being already in default in their loan amortizations, there existed a violation of the mortgage deed even before the institution of the action. Hence, the CFI could not have rendered a valid judgment in Civil Case No. C-7496 and the consignation made pursuant to a void judgment was likewise void. Respondents also fault the trial court for holding that their right to foreclose the property had already prescribed.

True, the trial court erred when it ruled that the 1981 CFI decision in Civil Case No. C-7496 was already final and executory.

An action for declaratory relief should be filed by a person interested under a deed, will, contract or other written instrument, and whose rights are affected by a statute, executive order, regulation or ordinance *before* breach or violation thereof. [1] The purpose of the action is to secure an authoritative statement of the rights and obligations of the parties under a statute, deed, contract, *etc*. for their guidance in its enforcement or compliance and not to settle issues arising from its alleged breach.[2] It may be entertained only before the breach or violation of the statute, deed, contract, etc. to which it refers.[3] Where the law or contract has already been contravened prior to the filing of an action for declaratory relief, the court can no longer assume jurisdiction over the action.[4] In other words, a court has no more jurisdiction over an action for declaratory relief if its subject, *i.e.*, the statute, deed, contract, *etc.*, has already been infringed or transgressed before the institution of