

THIRD DIVISION

[G.R. No. 239986, July 08, 2019]

**ROMA FE C. VILLALON, PETITIONER, V. RURAL BANK OF AGOO,
INC., RESPONDENT.**

DECISION

PERALTA, J.:

Before Us is a petition for review on *certiorari* under Rule 45 of the Rules of Court assailing the Decision^[1] dated August 4, 2017 of the Court of Appeals (CA) in CA-G.R. CV No. 106920.

The antecedent facts are as follows:

On May 18, 1998, the spouses George and Zenaida Alviar (*Spouses Alviar*) obtained a loan from herein respondent Rural Bank of Agoo, Inc. (*RBAI*) in the amount of P145,000.00, secured by a real estate mortgage over a residential lot and house of the spouses covered by Tax Declaration Nos. 93-001-43749 and 93-001-52100 located at Barangay I, San Fernando, La Union. On the same date, the mortgage was registered with the Register of Deeds of La Union.

The loan became due and payable on February 10, 1999, and was renewed for four (4) times with the following due dates: August 9, 1999, February 4, 2000, August 2, 2000, and January 26, 2001; all evidenced by a promissory note.

On July 30, 2000, the Spouses Alviar borrowed P400,000.00 from herein petitioner Roma Fe C. Villalon (*Villalon*) which was secured by a Real Estate Mortgage executed on July 30, 2000 over the same residential lot and house which the spouses used as collateral with RBAI. The real estate mortgage was registered with the Register of Deeds on July 6, 2001.

On several dates, the Spouses Alviar obtained additional loan from RBAI in the amount of P50,000.00 and P30,000.00, both secured by a real estate mortgage over the same residential lot and house. For their failure to pay their loan, an extrajudicial foreclosure was resorted to by RBAI. The foreclosure sale was reset to several dates.

The Spouses Alviar, likewise, failed to pay their loan to Villalon. Thus, Villalon applied for the extrajudicial foreclosure of the mortgaged realties. The foreclosure sale was conducted on June 26, 2002, wherein Villalon was declared as the highest bidder, with a bid of P1,050,000.00. A Certificate of Sale of Real Property was issued to Villalon on June 27, 2002, and the same was registered with the Register of Deeds on July 5, 2002.

On June 16, 2004, the foreclosure sale initiated by RBAI finally pushed through. RBAI was the highest bidder with a bid of P341,830.94 and the corresponding Certificate of Sale was issued to it. On October 14, 2005, RBAI paid the requisite

fees, but despite its request, the Certificate of Absolute Deed of Sale was not issued to it.

On the other hand, a Certificate of Absolute Definitive Sale was issued on August 6, 2007 to Villalon, who had been in physical possession of the property since its foreclosure in 2002. Villalon had it declared for taxation purposes in her business name "*Villalon Lending Investor*," and had paid realty taxes for the same.

Upon discovering this, RBAI filed a Complaint for recovery of sum of money and damages before the Regional Trial Court (RTC) of Agoo, La Union against Villalon and the Spouses Alviar, claiming principally from Villalon, and alternatively from the Spouses Alviar, the amount of P750,818.34. RBAI alleged that since the mortgage of the said real properties in its favor is earlier than the mortgage to Villalon, then RBAI is the first mortgagee/superior lien holder, while Villalon is only the second mortgagee/subordinate encumbrancer/subordinate lien holder. While the second mortgagee can foreclose ahead of the first mortgagee, RBAI claimed that the proceeds of the sale should be used to satisfy first the loan obtained from the first mortgagee. In other words, RBAI's claim of P750,818.34 should be satisfied from the amount of P1,050,000.00, the bid of Villalon. Despite demand for Villalon to remit or deliver the said amount of P750,818.34, the latter refused. In the event that Villalon would not be held liable for or would be unable to pay the said amount, RBAI averred that the Spouses Alviar should be ordered to pay the amount of P750,818.34.

The Spouses Alviar did not file their Answer despite due summons publication.

Villalon, on the other hand, countered that RBAI has no cause of action against her since she was not a party to the contract between RBAI and the Spouses Alviar. Thus, she has no obligation to pay the loan granted by RBAI to the spouses. She has been in lawful and absolute ownership of the properties in question since June 27, 2002, and her ownership was confirmed and approved by Judge Carbonell,^[2] when the latter issued in her favor the Certificate of Absolute Definitive Sale of Real Property on August 6, 2007. Hence, RBAI cannot assert any right over the properties in question.

On January 6, 2016, the RTC issued a Decision^[3] ordering the Spouses Alviar to pay RBAI the sum of P750,818.34, plus interest of 12% *per annum* and attorney's fees in the amount of P50,000.00. The complaint against Villalon was dismissed. The RTC ruled that RBAI has no cause of action against Villalon there being no contractual relationship between them. It declared that the foreclosure initiated by Villalon is valid and, therefore, she has a better right over the foreclosed property. She has no obligation to pay RBAI with respect to the obligation of the spouses to RBAI. However, since it appears from evidence that the Spouses Alviar have an outstanding obligation to RBAI in the amount of P750,818.34, RBAI is entitled to recover from the spouses the unpaid loans and expenses in connection with the collection of such amount.

An appeal was filed by RBAI before the CA, arguing that it is legally entitled to recover from Villalon the amount of P750,818.34, plus interest. Being the first mortgagee and having registered the real estate mortgage ahead of Villalon, RBAI contended that Villalon, as a second mortgagee, has the legal obligation to acknowledge and respect the priority or preferred right of the first mortgagee. Hence, RBAI contends that the proceeds of the foreclosure sale initiated by Villalon

in the amount of P1,050,000.00 should be used first to satisfy the loan obligation of the Spouses Alviar with RBAI which amounted to P750,818.34, plus interest until fully paid. The excess, if any, shall go to Villalon.

On August 4, 2017, the CA granted RBAI's appeal and set aside the decision of the RTC. It held that the RTC erred in dismissing the complaint against Villalon. According to the CA, RBAI has a cause of action against Villalon for it is enforcing its first lien or superior lien over the property on the basis of its prior mortgage as against Villalon, the second mortgagee or junior encumbrancer. Although the complaint is captioned as one for recovery of sum of money, the allegations in the complaint clearly show that RBAI is asserting its right as a superior lienholder.

The CA noted that the subject matter of the real estate mortgage is an unregistered property, which registration of transaction was first governed by Act No. 3344 and is now amended by Presidential Decree No. 1529. The proper foreclosure of the first mortgage by RBAI gave, not only the first mortgagee, but also subsequent lienholders like Villalon, the right to redeem the property within the statutory period. In order for Villalon to acquire full rights over the properties subject of the mortgage, she must first redeem the property by paying off the bid price of RBAI in the auction sale, which was P341,830.94, plus interest of 1% per month, and the assessments or taxes, if any, paid by the purchaser, with the same rate of interest.

A motion for reconsideration was filed by Villalon, but was denied by the CA in a Resolution^[4] dated June 7, 2018.

Hence, this petition, raising the following assignment of errors:

- A) THE RESPONDENT COURT OF APPEALS GRAVELY ERRED IN ITS PRONOUNCEMENT THAT THE FIRST MORTGAGE WITH RESPONDENT RBAI PREVAIL OVER THE MORTGAGE TO THE PETITIONER;
- B) THE RESPONDENT COURT [OF APPEALS] COMMITTED GRAVE ERROR IN ORDERING THE PETITIONER TO PAY TO THE RESPONDENT RBAI THE BID PRICE, INTEREST AND ASSESSMENT OR TAXES IF ANY; [and]
- C) THE RESPONDENT COURT GRAVELY ERRED IN NOT ENTERTAINING THE CLAIM OF THE PETITIONER OF GOOD FAITH.^[5]

Petitioner Villalon contends that since the foreclosure she initiated was published several times in the newspaper, which is considered as constructive notice to RBAI, the latter's non-action was tantamount as a waiver to protest the same. Likewise, petitioner Villalon claims that she was in good faith as she was not aware of the mortgage/s entered by and between RBAI and the spouses, and that no protest was received during the foreclosure proceedings she initiated. She also maintains that she has no contractual relationship with respondent RBAI, and the latter's recourse is against Spouses Alviar who did not appeal the decision of the RTC.

RBAI, in its Comment,^[6] stated that the CA was correct in setting aside the decision of the RTC and in ordering Villalon to pay RBAI the redemption price, together with the assessments or taxes, if any, plus interest. It prayed that Villalon's petition be denied and the ruling of the CA be affirmed *in toto*.