

## SECOND DIVISION

[ G.R. No. 193499, April 23, 2018 ]

**BANCO DE ORO UNIBANK, INC., PETITIONER, VS. VTL REALTY, INC., RESPONDENT.**

### DECISION

**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.<sup>[1]</sup>

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.<sup>[2]</sup>

On January 6, 1997, the RTC rendered a Decision<sup>[3]</sup> 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.<sup>[4]</sup> VTL appealed the RTC judgment to the Court of Appeals (CA), which affirmed the same in a Decision<sup>[5]</sup> dated May 26, 2004. Thereafter, an Entry of Judgment<sup>[6]</sup> 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<sup>[7]</sup> 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,<sup>[8]</sup> 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<sup>[9]</sup> dated June 19, 2007, the RTC granted VTL's motion based on its interpretation of *DBP vs. Zaragoza*.<sup>[10]</sup> Consequently, it ruled in its Order<sup>[11]</sup> 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<sup>[12]</sup> 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<sup>[13]</sup> 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.<sup>[14]</sup>

VTL filed a motion for reconsideration, which the RTC denied in its Order<sup>[15]</sup> 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,<sup>[16]</sup> 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.<sup>[17]</sup>

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.<sup>[18]</sup> The CA also affirmed VTL's reliance on *PNB vs. CA*,<sup>[19]</sup> 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.<sup>[20]</sup> 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<sup>[21]</sup> 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.<sup>[22]</sup>

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."<sup>[23]</sup> 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.<sup>[24]</sup> 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.<sup>[25]</sup>

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*,<sup>[26]</sup> 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