

THIRD DIVISION

[G.R. No. 187882, August 24, 2015]

PHILIPPINE NATIONAL BANK, PETITIONER, VS. SPOUSES HIPPOCRATES AND MELANIE PIMENTEL, RESPONDENTS.

D E C I S I O N

PERALTA, J.:

This deals with the Petition for Review on *Certiorari* under Rule 45 of the Rules of Court praying that the Decision^[1] of the Court of Appeals (CA), promulgated on February 27, 2009, and the Resolution^[2] dated May 14, 2009, denying petitioner's motion for reconsideration thereof, be reversed and set aside.

The antecedent facts are as follows:

Respondents obtained a loan from petitioner Philippine National Bank (*PNB*) in the amount of Seven Million Four Hundred Forty Thousand Pesos (PhP7,440,000.00). As security for the loan, respondents executed a mortgage over their property, covered by TCT No. RT-106886, in favor of PNB. Respondents, however, defaulted and failed to pay despite repeated demands. Hence, PNB instituted extrajudicial foreclosure proceedings.

At the public auction, PNB was the highest bidder and, eventually, it was able to consolidate title in its name after the one-year redemption period expired on November 5, 1998. On July 6, 2001, TCT No. RT-106886 was cancelled and a new one, TCT No. N-225774, was issued in the name of PNB. PNB then demanded that respondents vacate and surrender the subject property, but the latter refused to comply with said demand. This prompted PNB to file an *Ex-Parte* Petition for the Issuance of Writ of Possession on November 27, 2001 with the Regional Trial Court (*RTC*) of Quezon City, Branch 222.

Meanwhile, on March 9, 2001, respondents had also filed a complaint for Annulment of Foreclosure of Mortgage, docketed as Civil Case No. Q-01-43625, raffled to the RTC of Quezon City, Branch 97. Herein parties, however, amicably settled said case and entered into a Compromise Agreement dated October 10, 2002. Pursuant to said Compromise Agreement, respondents withdrew the case against PNB and the parties executed a Deed of Conditional Sale, whereby respondents repurchased subject property from PNB for the consideration of Seven Million Five Hundred Thousand Pesos (PhP7,500,000.00). After a little more than a year, respondents again failed to pay amortizations as stipulated in the Deed of Conditional Sale. PNB then cancelled the Deed of Conditional Sale through a Notarial Notice of Rescission dated February 26, 2004.

Subsequently, PNB applied for a writ of possession with the RTC, which then ordered the issuance of said writ of possession in a Decision dated August 22, 2005, and the

writ was eventually issued on March 27, 2006. However, respondents moved for reconsideration of the Decision dated August 22, 2005. On August 24, 2006, the RTC set aside the August 22, 2005 Decision, along with the Writ of Possession dated March 27, 2006.

PNB then filed a motion for reconsideration of said Order dated August 24, 2006, but said motion was denied. Aggrieved by the RTC's orders, PNB appealed to the CA. However, the appellate court, in its Decision dated February 27, 2009, affirmed the RTC Order setting aside the Decision granting the issuance of the Writ of Possession. The CA ruled that "the execution of a Deed of Conditional Sale between appellant and appellees had defeated the appellant's right to the issuance of a Writ of Possession."^[3] Petitioner's motion for reconsideration of the CA Decision was denied per Resolution dated May 14, 2009.

Elevating the matter to this Court *via* a petition for review on *certiorari*, petitioner now raises the following issues:

- I. The Honorable Court of Appeals erred in upholding the findings of the trial court that the petitioner could no longer invoke [the] provisions of Act No. 3135 when it entered into a Compromise Agreement with the private respondents in LRC Case No. 01-43625.
- II. The Honorable Court of Appeals erred in upholding the findings of the lower court when it set aside the Writ of Possession despite the fact that its issuance is ministerial on its part.
- III. The Honorable Court of Appeals erred in upholding the lower court in that the execution of the Deed of Conditional Sale between PNB and Spouses Pimentel has defeated PNB's right to the issuance of a Writ of Possession.
- IV. The Honorable Court of Appeals erred in upholding the lower court's findings that with the execution of the Deed of Conditional Sale between the PNB and Spouses Pimentel, a new relationship was created between the parties and what applies to this new relationship is no longer the law on extra-judicial foreclosure but the law on lease.^[4]

Stripped down to its very essence, the only question to be resolved in this case is, whether the subsequent execution of the Deed of Conditional Sale effectively deprived PNB of its right to a writ of possession under the law on extra-judicial foreclosure.

The Court finds no merit in the petition.

At the outset, it must be pointed out that this case does not involve the concept of novation, which presupposes that the original contract is still valid and subsisting when another contract supplanted the previous one. That is not the situation in this case. Once the mortgaged property was sold at public auction and title to the property has passed and had been consolidated in the name of the winning bidder,

the duties and obligations of the parties under the loan and mortgage contract had been fulfilled and the contract extinguished. The original loan and mortgage contract had been extinguished through payment or performance.^[5]

This is especially clear, if we consider the scenario where the winning bidder was some entity other than the creditor itself/himself. If some other entity emerged as the winning bidder at the public auction and became the new absolute owner after the debtor failed to redeem the property, it would be obvious that the mortgage contract would no longer hold sway. Evidently, the mortgagor-mortgagee regime, or the first contract, was extinguished and terminated once the winning bidder at the public auction became the absolute owner of the subject property. Thus, by the time PNB and respondents entered into the subsequent contract of conditional sale, the mortgage contract was no longer existing.

The pertinent portions of the Deed of Conditional Sale between herein parties state, thus:

1. Subject to the Vendee's compliance with the terms and conditions herein set forth, the Vendor [PNB] hereby agrees to sell, transfer and convey unto and in favor of the Vendee [herein respondents], his heirs, assigns, and successors-in-interest, all of the Vendor's rights, title and interests over and with respect to the Property.

2. The consideration of the sale is hereby fixed at the Principal amount of PHILIPPINE PESOS SEVEN MILLION FIVE HUNDRED THOUSAND ONLY (P7,500,000.00) payable in accordance with the following schedule of payment:

x x x x

3. In the event the Vendee fails to pay any amount due on the dates specified in Section 2(b) hereof, any amount paid by the Vendee to the Vendor in consideration of the sale shall be deemed forfeited. In such event, the Vendor is hereby authorized to sell the property to other interested parties.

x x x x

5. The Vendee hereby waives his right to be placed in actual possession of the Property and agrees that upon execution hereof, he is deemed to have been constructively placed in possession thereof. The Vendee further agrees to undertake, at his own expense, to eject any occupants of the Property.

x x x x

9. Should the Vendee falls (sic) to pay any of the monthly amortizations or installments as and when due or any advances made by the Vendor as authorized herein, or to comply with any of the terms and conditions thereof, then the Vendor may, at its option and by written notice to the Vendee with respect thereto (i) consider the whole obligation due and