773 Phil. 523

FIRST DIVISION

[G.R. No. 162032, November 25, 2015]

RURAL BANK OF MALASIQUI, INC., PETITIONER, VS. ROMEO M. CERALDE AND EDUARDO M. CERALDE, JR., RESPONDENTS.

D E C I S I O N

BERSAMIN, J.:

This appeal resolves the question of which between the parties - on one hand, the petitioner, the rural bank that foreclosed the mortgage constituted on the agricultural lands earlier expropriated under the land reform program of the State, and acquired the lands under mortgage as the highest bidder in the ensuing foreclosure sale; and, on the other, the respondents, the registered owners and mortgagors of the lands in favor of the petitioner - was entitled to the payment of the just compensation for the lands.

In this suit initiated by the respondents to assert their right to the net value of the just compensations, the petitioner prevailed in the Regional Trial Court (RTC), Branch 57, in San Carlos City, Pangasinan by virtue of the judgment rendered on July 15, 1995 (dismissing the respondents' complaint for lack of cause of action),[1] but the Court of Appeals (CA), reversing the judgment of the RTC on appeal through the assailed decision promulgated on April 15, 2003,[2] ordered the petitioner instead to pay to the respondents the sum of P119,912.00, plus legal interest reckoned from July 12, 1993, the date when the complaint was filed, representing the net value of the just compensation .

The petitioner is now before the Court to seek the review and reversal of the adverse decision of the CA.

Antecedents

The antecedents, as narrated by the CA, are the following:

> Romeo M. Ceralde and Eduardo M. Ceralde, Jr., are the owners of the parcels of land covered by Transfer Certificate of Title (TCT) Nos. 111647 and 111648 respectively, of the Registry of Deeds of Pangasinan. Under varied dates in the years 1978, 1980, 1981 and 1982, they mortgaged these properties in favor of appellee [R]ural [B]ank of Malasiqui, Inc., as security for agricultural loans they obtained from the bank. At the time, however, the land had already been placed under the coverage of Operation Land Transfer and the corresponding Certificates of Land Transfer were already issued to the tenants thereon. Nevertheless, appellee rural bank, through its president, adviced (*sic*) mortgagors-appellants to submit an Affidavit of Non-Tenancy, which appellants

complied with. The mortgages were then approved by appellee rural bank.[3]

After the respondents did not pay the loans at maturity, the petitioner caused the extrajudicial foreclosure of the mortgages. In the ensuing foreclosure sale, the petitioner acquired the mortgaged properties for being the highest bidder.

The respondents commenced this action in the RTC to recover the net value of the just compensation of the lands subject of the mortgages, averring that their right to receive the payment for just compensation either directly from the tenants or from the Land Bank of the Philippines could not be the subject of the foreclosure proceedings; and that their equitable interest in the right to receive the just compensation was protected under Section 80 of Republic Act No. 3844 (*Agricultural Land Reform Code*), as amended, based on Opinion No. 92, Series of 1978, issued by the Secretary of Justice. They prayed that the extrajudicial foreclosure of the mortgages constituted over the two parcels of land covered by Transfer Certificate of Title No. 111647 and TCT No. 111648 of the Registry of Deeds of Pangasinan be annulled; that TCT No. 151066 and TCT No. 151067 of the Registry of Deeds of Pangasinan in the name of the petitioner be cancelled; and that the petitioner be ordered to pay them PI 19,912.00, representing the net value of the properties, plus legal interest.[4]

In its answer, the petitioner contended that it had foreclosed the mortgages because of the failure of the respondents to pay their loans upon maturity and despite repeated demands; that it had acquired the properties as the highest bidder in the foreclosure sale; that the respondents had misrepresented to it the untenanted status of the properties by submitting affidavits of non-tenancy to support their loan application; that it had found out later on that the lands were really tenanted; that the properties, which were already registered in its name, were sold to the tenants in actual possession and cultivation of the lands; that the claim of the respondents was already barred by laches; that they were also guilty of forum shopping; and that their complaint did not state any factual or legal basis for the award of damages and attorney's fees.[5]

Ruling of the RTC

The RTC rendered its judgment dated July 15, 1995 dismissing the complaint of the respondents.[6] It opined that the petitioner only enforced the mortgage contract upon the default of the respondents; that nothing in the records showed that the conduct of the foreclosure and the ensuing sale had disregarded the law and the rules governing extrajudicial foreclosures; that the respondents' claim of having informed the petitioner about the existence of the tenants could not be believed; that the respondents were guilty of misrepresentation from the very beginning in obtaining the loan; and that the respondents were barred by estoppel on account of their misrepresentation, as well as by laches in view of the fact that their objection came too late and only after the properties had already been transferred in the names of the tenant-beneficiaries.

Decision of the CA

On appeal, the respondents argued that the rule on estoppel did not apply because the petitioner had been aware from the beginning of the existence of the tenants on their landholdings; that respondent Romeo M. Ceralde had testified that Atty. Dolores Acuña, the president of the petitioner, had directly informed him that their loan application would be granted if he could secure the certificate of non-tenancy from the Municipal Agrarian Reform Officer (MARO) whose office was just across from the petitioner's premises; that Romeo had further testified that their tenants were depositing their harvests in the warehouse owned by Atty. Acuña, thereby indicating that the petitioner had been well aware of the tenanted condition of the lands; and that because such testimonies were not controverted, objections thereto were already waived.

As earlier mentioned, on April 15, 2003, the CA reversed the RTC,[7] ruling thusly:

> Appellants assert, in this appeal, that the court ***a quo*** committed error in finding them guilty of, or barred by, estoppel. They argue that the rule on estoppel does not apply to them because appellee rural bank was also aware from the beginning that they have tenants on their landholdings used as collateral for their loans. Thus, in granting the loans, appellee rural bank was also in bad faith. Appellant Romeo Ceralde testified that he was told by the president of appellee rural bank that their loan will be granted if he could secure a certificate of non-tenancy from the Municipal Agrarian Reform Leader whose office is just in front of the rural bank. He further testified that their tenants were the ones depositing their harvests in the warehouse owned by Atty. Dolores Acuna, the President of appellee rural bank, apparently to bolster the contention that appellee rural bank was aware that appellants' lands are tenanted.
>
> The other appellant, Eduardo Ceralde, testified also along the same line. These testimonies were not controverted by appellee rural bank which, accordingly, is deemed to have waived its objection thereto. The argument is well taken considering that the rule on estoppel has no application where the knowledge or means of knowledge of both parties is equal, as in the instant case. Appellee is therefore likewise in estoppel. And having performed affirmative acts, advising them to submit certificates of non-tenancy upon which appellants based their subsequent actions, cannot thereafter refute its acts or renege on the effects of the same, to the prejudice of the latter. To allow it to do so would be tantamount to conferring upon it the liberty to limit its liability at its whim and caprice, which is against the very principles of equity and natural justice.
>
> Appellants further asserted that the Court ***a quo*** erred in not declaring that the extrajudicial foreclosure by the appellee rural bank of the mortgages on their landholdings is contrary to law and, therefore, void ***ab initio.***
>
> It is undisputed that when informed by appellee rural bank of the impending foreclosure of their mortgages, appellant Romeo Ceralde went to see the manager of appellee rural bank to inform her that the Land

Bank of the Philippines will be the one to pay their mortgage obligations. Notwithstanding the information and apparent objection to the impending foreclosure, appellee went ahead with the foreclosure proceedings and. thereafter, sought the registration of the properties in its name. Eventually, appellee sold the same to the tenants for a total sum of P140,000.00, in the process depriving appellants of their right to receive the sum of P119,912.00 representing the net value of their landholdings after deducting the amount of P28,088.00 for which the properties were sold to appellee rural bank at the public auction sale.

Again, appellants' argument appears to be well taken. The pertinent provision of the Agrarian Reform Code provides, as follows:

> "In the event there is existing lien or encumbrance on the land in favor of any Government lending institution at the time of acquisition by the Bank, the landowner shall be paid the net value of the land (i.e., the value of the land determined under Proclamation No. 27 minus the outstanding balance/s of the obligation/s secured by the line/s or encumbrance/s), and the outstanding balance/s of the obligations to the lending institution/s shall be paid by the Land Bank in Land Bank bonds or other securities existing charters of these institutions to the contrary notwithstanding. A similar settlement may be negotiated by the Land Bank in the case of obligations secured by liens or encumbrances in favor of private parties or institutions." (Underscoring supplied)

As stated by the Secretary of Justice in his Opinion No. 92, series of 1978, in a similar case or situation, "the Land Bank is thus charged with the obligation to settle or negotiate the settlement of the obligations secured by the mortgage, lien or encumbrance whether the lender is a government or a private lending institution. This assumes that the right of the mortgagee (appellee) to enforce its lien through foreclosure proceedings against appellants' landholdings no longer subsists." Verily, therefore, appellee violated the law, Section 80 of the Agrarian Reform Code, when it enforced its lien against appellants properties through foreclosure proceedings.

In respect of the lower court's findings that appellants are guilty of laches, the same cannot be allowed to prosper. "The question of laches is addressed to the sound direction of the court and since laches is an equitable doctrine, its application is controlled by equitable considerations. It cannot be applied to defeat justice or to perpetuate fraud." Besides, it appears that the properties were sold or the mortgages foreclosed on 12 July 1983 while the complaint was filed on 12 July 1993. As provided for under Article 1142 of the Civil Code, "A mortgage action prescribes after ten years." Obviously, appellants' right of action has not yet prescribed.

Apparently, as the foregoing discussion indicates the trial court has indeed committed errors which warrant the reversal of its decision in the present aforementioned case.

WHEREFORE, premises considered, the appealed decision is hereby **REVERSED** and **SET ASIDE** and a new one **ENTERED** ordering appellee to pay the appellants the sum of P119,912.00, plus interest at the legal rate computed from 12 July 1993, the time when their complaint was filed.

SO ORDERED.[8]

Issues

Undaunted, the petitioner appeals, insisting that:

I

THAT IT WAS ERROR FOR THE COURT OF APPEALS TO RULE THAT PRIVATE RESPONDENTS ARE NOT GUILTY OF LACHES AND ESTOPPEL;

II

THAT IT WAS ERROR FOR THE COURT OF APPEALS IN RULING (sic) THAT PETITIONER RURAL BANK VIOLATED THE AGRARIAN LAWS;

III

THAT IT WAS ERROR FOR THE COURT OF APPEALS TO DECLARE THAT PRIVATE RESPONDENTS ARE STILL ENTITLED TO BE PAID THE SUM OF P119,912.00 WITH INTEREST WHICH IS THE ALLEGED NET VALUE OF THEIR LANDHOLDINGS.[9]

Ruling

The appeal lacks merit.

I
Action was not barred by either prescription, laches or estoppel

The petitioner maintains that the CA wrongly relied on Article 1142 of the *Civil Code* because it was Article 1149 of the *Civil Code* that applied; and that the respondents were already barred by estoppel by virtue of their misrepresentation about the lands not being tenanted.

The petitioner is correct about the erroneous reliance on Article 1142 of the *Civil Code,* a legal provision on prescription that states: "*A mortgage action prescribes after ten years.*" The phrase *mortgage action* used in Article 1142 refers to an action to foreclose a mortgage, and has nothing to do with an action to annul the foreclosure of the mortgage,[10] like this one.