

SECOND DIVISION

[G.R. No. 121739, June 14, 1999]

**PHILIPPINE NATIONAL BANK, PETITIONER, VS. COURT OF
APPEALS, AND SPOUSES EDILBERTO AND ELENA NATIVIDAD,
RESPONDENTS.**

D E C I S I O N

MENDOZA, J.:

This is a petition for review of the decision, dated July 31, 1995, of the Court of Appeals,^[1] affirming the dismissal by the Regional Trial Court (RTC) of Quezon City, Branch 99 of the complaint filed by petitioner Philippine National Bank (PNB) to recover the deficiency of the debt owed to it by respondent spouses Edilberto and Elena Natividad after the extrajudicial foreclosure of the properties given by respondent spouses as collateral for their loan.

The facts are stated in the following portion of the decision of the trial court:

Material facts culled from the records reveal that on December 29, 1975, [respondent spouses] were granted by the [petitioner] bank a one-year Time Loan Commercial (TLC) of THIRTY-FOUR THOUSAND PESOS (P34,000.00). To secure the payment of said loan, [respondent spouses] executed in favor of [petitioner] PNB a real estate mortgage over nine (9) parcels of individually titled lands located in Sta. Maria, Pangasinan with an aggregate area of THREE THOUSAND TWO HUNDRED NINETY-TWO (2,292) square meters. These properties were declared for taxation purposes in the names of [respondent spouses] (Exh. 4) with the Municipal Treasurer of Sta. Maria, Pangasinan. As a pre-requisite for the approval of [respondent spouses'] loan application, [petitioner] thru its duly authorized inspector conducted an ocular inspection of the premises of the mortgaged properties to ascertain the market value thereof. The properties after due inspection and evaluation was appraised by [petitioner] PNB for loan purposes in the total amount of FORTY- NINE THOUSAND PESOS (P49,000.00) thereby justifying the grant of the loan applied for.

Due to dire financial constraints, [respondent spouses] after paying FIFTEEN THOUSAND PESOS (P15,000.00) (Exhs. "5" and "5-A") failed to pay the balance despite repeated demands by [petitioner PNB] (Exhs. "E," "F," "G," "M," "N," and "O"). Thereafter, [petitioner] bank as a recourse foreclosed the mortgaged properties extrajudicially, after compliance with the required publications of notices (Exhs. "K" and "K-1").

On November 26, 1982, the public auction sale of the said properties

were conducted in Pangasinan, where the properties are located, by the provincial sheriff. [Petitioner] bank as the highest bidder for SEVEN THOUSAND PESOS (P7,000.00), (Exh. "L") was thus awarded the herein properties. This amount, however, was short of SIXTY-FOUR THOUSAND SIX HUNDRED TWENTY-FOUR and 31/100 (P64,624.31) representing the balance on the principal obligation, accrued interest, penalties, attorney's fees, and expenses of litigation (Exhs. "D" and "D-2"). For failure to redeem the properties within the statutory period allowed by law, [petitioner] filed the instant deficiency claim.

[Respondent spouses] on the other hand interposed as justification of their inability to redeem the properties their continuing financial hardships. More than this, they professed that they should not be made to pay the deficit among other grounds as the aforesaid public auction sale was tainted with fraud and similar irregularities.^[2]

On the basis of these facts, the trial court rendered its decision, the dispositive portion of which reads:

WHEREFORE, premises considered, the deficiency claim is hereby DENIED and the total obligation of the defendants is hereby considered fully paid. This action is DISMISSED with costs against the plaintiff.

SO ORDERED.^[3]

The RTC justified its decision, thus:

. . . The peculiar circumstances of this case is such that [petitioner] is estopped from recovering alleged deficiency judgment from the [respondents]. It must be noted from the records that prior to the approval of the [respondents'] loan application and as a pre-requisite therefor, [petitioner] thru its duly authorized inspector, conducted an inspection and evaluation of the properties offered as security for the purpose of determining its fair market value and came out with a report dated December 10, 1975 (Exh. 1) with an appraisal thereof of FORTY-NINE THOUSAND PESOS (P49,000.00). Asked on the general practice of all banks, on cross examination, Elizabeth Gonzales, [petitioner's] employee testified that banks get sixty or seventy per cent (60% or 70%) of market value of the properties (TSN, May 29, 1986, Exh. "P") as the loan value thereof; hence, the amount of THIRTY-FOUR THOUSAND PESOS (P34,000.00) was assigned and approved by [petitioner] unilaterally [as] its loanable worth. Apparently, with the high expectancy that [it] may be the lone bidder of the properties in the public auction sale in the event of foreclosure proceedings, [petitioner] re-appraised the same by assigning thereto the value of TWO THOUSAND PESOS (P2,000.00) as basis for fixing the bid price thereof, thus the herein properties were reclassified as plain agricultural lands without giving due regard to the certification of the Municipal Treasurer of Sta. Maria, Pangasinan that the subject lots were assessed as residential concerns on the basis of the subdivision plan of the premises duly approved by the Land Registration Commission (now Land Registration Authority).

Hence, it can thus be deduced from the foregoing that the downward

valuation of the mortgaged property is questionable and unjust, if not dubiously schemed. The act of the [petitioner] in re-classifying the land for the purpose of deriving therefrom a lower valuation and establishing the basis for a deficiency claim to the detriment of the [respondents] can not be countenanced. Real estate properties almost always appreciate in value considering the high rate of inflation. It is thus quite improbable that after six (6) years, the assessed value of the nine (9) parcels of land could have depreciated drastically from FORTY-NINE THOUSAND PESOS (P49,000.00) to TWO THOUSAND PESOS (P2,000.00) according to [petitioner's] self-serving re-appraisal. We cannot gainsay the fact that had there been no reclassification nor re-assessment of the mortgaged properties, there could have been no deficiency liability to speak of. Were it not for the residential assessments of the properties, [petitioner] would not have granted the loan transaction of the properties, likewise, [respondents] would not have pushed through with their loan application. The [petitioner] in the instant case, through its act and declarations, intentionally led the [respondents] to believe that the valuation it assigned to the properties as security is its real market value, and the [respondents] relying upon such legitimate belief, acted in good faith with strong reliance on [petitioner's] aforesaid policy on real estate loan.

It is very evident, therefore, as in this case, that the principle of estoppel applies to the [petitioner]. Consequently, the [respondents] should not be made to suffer for [petitioner's] own doing by downgrading the price of the properties which resulted to an undue advantage over the [respondents] at the auction sale. Necessarily, in the spirit of fair play and observance of equity, [petitioner] bank must bear the loss it sustained as a consequence of its failure to justify its act which is diametrically opposed to sound business dealings. [Respondents] who are innocent of the scheme adopted by the [petitioner] bank in reducing the value of the properties resulting to its unwarranted gains shall not be permitted to suffer from unmeritorious claim.^[4]

On appeal, the Court of Appeals affirmed, stating:

It is, therefore, very evident to this Court the dubious scheme perpetrated by [petitioner] bank on [respondent spouses] was not only to keep the latter's P15,000.00 initial payments, but also to grab ownership of mortgaged properties through self-serving appraisal prejudicial to the rights of [respondent spouses], and much more still to hold [respondent spouses] liable for the deficiency amount of the extrajudicial foreclosure of mortgage. Such practice cannot be countenanced by the Court.^[5]

Hence, this petition. Petitioner contends that

I

THE CA ERRED IN HOLDING THAT PNB CANNOT RECOVER ITS DEFICIENCY CLAIM AGAINST SPOUSES EDILBERTO AND ELENA NATIVIDAD ARISING FROM EXTRAJUDICIAL FORECLOSURE DESPITE CLEAR JURISPRUDENCE ALLOWING THE SAME.

II

THE CA ERRED IN HOLDING THAT PECULIAR CIRCUMSTANCES EXIST IN THE INSTANT CASE RENDERING PETITIONER BANK ESTOPPED FROM RECOVERING ITS DEFICIENCY CLAIM.

III

THE CA ERRED IN NOT HOLDING, ASSUMING ARGUENDO THAT THE MORTGAGED PROPERTY WAS SOLD AT AN AMOUNT LESS THAN ITS FAIR OR ACTUAL MARKET VALUE, THAT THERE WAS NO DISADVANTAGE GOING FOR THE MORTGAGORS. ON THE CONTRARY, THE NATIVIDADES STAND TO GAIN WITH A REDUCED PRICE BECAUSE THEY POSSESS THE RIGHT OF REDEMPTION.^[6]

To begin with, it is settled that if the proceeds of the sale are insufficient to cover the debt in an extrajudicial foreclosure of the mortgage, the mortgagee is entitled to claim the deficiency from the debtor. For when the legislature intends to deny the right of a creditor to sue for any deficiency resulting from foreclosure of security given to guarantee an obligation it expressly provides as in the case of pledges [Civil Code, Art. 2115] and in chattel mortgages of a thing sold on installment basis [Civil Code, Art. 1484(3)]. Act No. 3135, which governs the extrajudicial foreclosure of mortgages, while silent as to the mortgagee's right to recover, does not, on the other hand, prohibit recovery of deficiency. Accordingly, it has been held that a deficiency claim arising from the extrajudicial foreclosure is allowed.^[7]

The question in this case is whether, as held by both the trial and appellate courts, petitioner is estopped from pursuing its deficiency claim arising from the extrajudicial foreclosure against respondent spouses' properties.

The essential elements of estoppel are: (1) conduct amounting to false representation or concealment of material facts or at least calculated to convey the impression that the facts are otherwise than, and inconsistent with, those which the party subsequently attempts to assert; (2) intent, or at least expectation, that this conduct shall be acted upon by, or at least influence, the other party; and (3) knowledge, actual or constructive, of the real facts. As related to the party claiming the estoppel, the essential elements are: (1) lack of knowledge and of the means of knowledge of the truth as to the facts in question; (2) reliance, in good faith, upon the conduct or statements of the party to be estopped; (3) action or inaction based thereon of such character as to change the position or status of the party claiming the estoppel, to his injury, detriment, or prejudice.^[8]

Both the trial court and the Court of Appeals held petitioner to be estopped from pursuing its deficiency claim on the ground that the deficiency arose from petitioner bank's reappraisal of the properties in question for purposes of fixing the bid price thereof. From its initial appraisal of P49,000.00 nearly seven years earlier, petitioner substantially downgraded its appraisal of the value of the properties prior to foreclosure and purchased the properties at auction for only P7,000.00 as the sole bidder (Exh. L).^[9] Both courts held that petitioner had lowered its appraisal of the properties for the purpose of acquiring the properties and still collecting from respondent spouses a deficiency claim. In their view, respondent spouses relied in good faith on petitioner's initial appraisal of their properties as worth P49,000.00 in

mortgaging their properties on the theory that in case of their failure to pay their loan, their properties can answer for their obligation.

There are, however, several factors militating against this view.

First. Based on the evidence presented, it does appear that the reappraisal of the properties was their fair value. As stated in the report (Exh. R),^[10] dated January 17, 1980, of petitioner's credit investigator, Dionisio C. Damasco, Jr., who reappraised the properties at P7,000.00 only:

Per titles and current tax declarations, the collateral is situated in Bo. San Mariano, Sta. Maria, Pang., but actual location is in Bo. Balloy, Sta. Maria, Pang. These are two adjacent barrios. Distance of the property from the Bo. Boundary is about 250 m.

The property with a former area of 7,926 sq. ms. was bought by Mr. Edilberto Natividad from Mr. Esperidion Cabanayan, Sr. for P10,000.00 in 1975 and was later subdivided in the same year into Blocks 1 and 2 and 3 Road lots. These 3 road lots are nonexistent when inspected.

Lot 9 when plotted will not close & may be due to typographical error in point 4 to 1.

Though declared as residential per separate Tax Declarations, I am valuing it as agricultural for the following reasons:

1. Per our Bank Appraiser's Manual prepared by the Credit Dept. (2nd Edition-1976, p. 62) [Exh. S^[11]], it states that if a residential subdivision is less than 60% of the projected development, it should be considered as raw land value. The collateral has no improvement at all (except for the agricultural crops). The current market value of agricultural lands in Bo. Balloy surrounding the property ranges from P15,000 to P25,000 per ha. or an ave. of P20,000, hence its pertinent market value is P7,000 ($20,000 \times 2392/10000 = P6,584.00$ rounded to P7,000).
2. Actual use is agricultural planted to palay, mongo & beans
3. No visible concrete stone monuments to properly identify its subdivision into several lots
4. Distance from residential houses: N., about 860 ms.; S., about 250 ms.; E & W., even within a radius of one km. are agricultural lands. Surroundings are planted to palay and other secondary crops.
5. It is about 1.2 ms. below road level. It needs refilling to be fit for residential purposes and in order not to be flooded.

However, the provincial road leading to it is currently undergoing widening, elevation, leveling, and will possibly be asphalted.^[12]

Damasco, Jr. testified: