



Republic of the Philippines
Supreme Court
Manila

FIRST DIVISION

PHILIPPINE NATIONAL BANK,
Petitioner,

G.R. No. 189316

Present:

SERENO, C.J.,
Chairperson,
LEONARDO-DE CASTRO
BERSAMIN,
VILLARAMA, JR., and
REYES, JJ.

- versus -

SPOUSES BERNARD and
CRESENCIA MARAÑON,
Respondents.

Promulgated:

JUL 01 2013

X-----X

RESOLUTION

REYES, J.:

This is a petition for review on *certiorari*¹ under Rule 45 of the Rules of Court, assailing the Decision² dated June 18, 2008 and Resolution³ dated August 10, 2009 of the Court of Appeals (CA) in CA-G.R. SP No. 02513, which affirmed *in toto* the Orders dated September 8, 2006⁴ and December 6, 2006⁵ of the Regional Trial Court (RTC) of Bacolod City, Branch 54, directing petitioner Philippine National Bank (PNB) to release in favor of Spouses Bernard and Cresencia Marañon (Spouses Marañon) the rental fees it received amounting to Thirty Thousand Pesos (P30,000.00).

¹ Rollo, pp. 28-55.

² Penned by Associate Justice Stephen C. Cruz, with Associate Justices Antonio L. Villamor and Florito S. Macalino, concurring; id. at 9-20.

³ Id. at 21-23.

⁴ Id. at 130.

⁵ Id. at 137.

The Facts

The controversy at bar involves a 152-square meter parcel of land located at Cuadra-Smith Streets, Downtown, Bacolod (subject lot) erected with a building leased by various tenants. The subject lot was among the properties mortgaged by Spouses Rodolfo and Emilie Montealegre (Spouses Montealegre) to PNB as a security for a loan. In their transactions with PNB, Spouses Montealegre used Transfer Certificate of Title (TCT) No. T-156512 over the subject lot purportedly registered in the name of Emilie Montealegre (Emilie).⁶

When Spouses Montealegre failed to pay the loan, PNB initiated foreclosure proceedings on the mortgaged properties, including the subject lot. In the auction sale held on August 16, 1991, PNB emerged as the highest bidder. It was issued the corresponding Certificate of Sale dated December 17, 1991⁷ which was subsequently registered on February 4, 1992.⁸

Before the expiration of the redemption period or on July 29, 1992, Spouses Marañon filed before the RTC a complaint for *Annulment of Title, Reconveyance and Damages*⁹ against Spouses Montealegre, PNB, the Register of Deeds of Bacolod City and the Ex-Officio Provincial Sheriff of Negros Occidental. The complaint, docketed as Civil Case No. 7213, alleged that Spouses Marañon are the true registered owners of the subject lot by virtue of TCT No. T-129577 which was illegally cancelled by TCT No. T-156512 under the name of Emilie who used a falsified Deed of Sale bearing the forged signatures of Spouse Marañon¹⁰ to effect the transfer of title to the property in her name.

In its Answer,¹¹ PNB averred that it is a mortgagee in good faith and for value and that its mortgage lien on the property was registered thus valid and binding against the whole world.

As reflected in the Pre-trial Order¹² dated March 12, 1996, the parties stipulated, among others, that the period for legal redemption of the subject lot has already expired.

⁶ Id. at 73-87.

⁷ Id. at 98-99.

⁸ See TCT No. T-156512 in the name of Emilie Montealegre; id. at 96-97.

⁹ Id. at 88-92.

¹⁰ Id. at 93-97.

¹¹ Id. at 100-107.

¹² Id. at 115-117.

While the trial proceedings were ongoing, Paterio Tolete (Tolete), one of the tenants of the building erected on the subject lot deposited his rental payments with the Clerk of Court of Bacolod City which, as of October 24, 2002, amounted to ₱144,000.00.

On June 2, 2006, the RTC rendered its Decision¹³ in favor of the respondents after finding, based on the expert testimony of Colonel Rodolfo Castillo, Head of the Forensic Technology Section of Bacolod City Philippine National Police, that the signatures of Spouses Marañon in the Deed of Sale presented by Spouses Montealegre before the Register of Deeds to cause the cancellation of TCT No. T-129577 were forged. Hence, the RTC concluded the sale to be null and void and as such it did not transfer any right or title in law. PNB was adjudged to be a mortgagee in good faith whose lien on the subject lot must be respected. Accordingly, the Decision disposed as follows:

WHEREFORE, judgment is hereby rendered in favor of the plaintiffs [herein respondents]:

1. The cancellation of TCT No. 129577 over Lot 177-A-1 Bacolod Cadastre in the name of Bernard Marañon and the issuance of new TCT No. 156512 in the name of defendant Emilie Montealegre are hereby declared null and void;
2. The defendant Emilie Montealegre is ordered to reconvey the title over Lot No. 177-A-1, Bacolod Cadastre back to the plaintiffs Marañon [herein respondents];
3. The Real Estate Mortgage lien of the Philippine National Bank registered on the title of Lot No. 177-A-1 Bacolod Cadastre shall stay and be respected; and
4. The defendants - Emilie Montealegre and spouse are ordered to pay attorney's fees in the sum of Php50,000.00, and to pay the costs of the suit.

SO ORDERED.¹⁴

Neither of the parties sought a reconsideration of the above decision or any portion thereof nor did they elevate the same for appellate review.

What precipitated the controversy at hand were the subsequent motions filed by Spouses Marañon for release of the rental payments deposited with the Clerk of Court and paid to PNB by Tolete.

¹³ Id. at 118-122.

¹⁴ Id. at 122.

On June 13, 2006, Spouses Marañon filed an Urgent Motion for the Withdrawal of Deposited Rentals¹⁵ praying that the ₱144,000.00 rental fees deposited by Tolete with the Clerk of Court be released in their favor for having been adjudged as the real owner of the subject lot. The RTC granted the motion in its Order¹⁶ dated June 28, 2006.

On September 5, 2006, Spouses Marañon again filed with the RTC an Urgent Ex-Parte Motion for Withdrawal of Deposited Rentals¹⁷ praying that the ₱30,000.00 rental fees paid to PNB by Tolete on December 12, 1999 be released in their favor. The said lease payments were for the five (5)-month period from August 1999 to December 1999 at the monthly lease rate of ₱6,000.00.

The RTC granted the motion in its Order¹⁸ dated September 8, 2006 reasoning that pursuant to its Decision dated June 2, 2006 declaring Spouses Marañon to be the true registered owners of the subject lot, they are entitled to its fruits.

The PNB differed with the RTC's ruling and moved for reconsideration averring that as declared by the RTC in its Decision dated June 2, 2006, its mortgage lien should be carried over to the new title reconveying the lot to Spouses Marañon. PNB further argued that with the expiration of the redemption period on February 4, 1993, or one (1) year from the registration of the certificate of sale, PNB is now the owner of the subject lot hence, entitled to its fruits. PNB prayed that (1) the Order dated September 8, 2006 be set aside, and (2) an order be issued directing Spouses Marañon to turn over to PNB the amount of ₱144,000.00 released in their favor by the Clerk of Court.¹⁹

On November 20, 2006, the RTC issued an Order again directing PNB to release to Spouses Marañon the ₱30,000.00 rental payments considering that they were adjudged to have retained ownership over the property.²⁰

On December 6, 2006, the RTC issued another Order denying PNB's motion for reconsideration and reiterating the directives in its Order dated September 8, 2006.²¹

¹⁵ Id. at 123-124.

¹⁶ Id. at 126.

¹⁷ Id. at 127-128.

¹⁸ Id. at 130.

¹⁹ Id. at 131-135.

²⁰ Id. at 136.

²¹ Id. at 137.

Aggrieved, PNB sought recourse with the CA *via* a petition for *certiorari* and *mandamus*²² claiming that as the lawful owner of the subject lot per the RTC's judgment dated June 2, 2006, it is entitled to the fruits of the same such as rentals paid by tenants hence, the ruling that "the real estate mortgage lien of the [PNB] registered on the title of Lot No. 177-A-1 Bacolod Cadastre shall stay and be respected." PNB also contended that it is an innocent mortgagee.

In its Decision²³ dated June 18, 2008, the CA denied the petition and affirmed the RTC's judgment ratiocinating that not being parties to the mortgage transaction between PNB and Spouses Montealegre, Spouses Marañon cannot be deprived of the fruits of the subject lot as the same will amount to deprivation of property without due process of law. The RTC further held that PNB is not a mortgagee in good faith because as a financial institution imbued with public interest, it should have looked beyond the certificate of title presented by Spouses Montealegre and conducted an inspection on the circumstances surrounding the transfer to Spouses Montealegre. The decretal portion of the Decision thus read:

WHEREFORE, in view of the foregoing, the petition is hereby **DISMISSED**. The Orders dated September 8, 2006 and December 6, 2006, rendered by the respondent Presiding Judge of the Regional Trial Court, Branch 54, Bacolod City, in Civil Case NO. 7213 directing the release of the deposited rental in the amount of THIRTY THOUSAND PESOS ([P]30,000.00) to private respondents are hereby **AFFIRMED**.

SO ORDERED.²⁴

PNB moved for reconsideration²⁵ but the motion was denied in the CA Resolution dated August 10, 2009.²⁶ Hence, the present recourse whereby PNB argues that the RTC Decision dated June 2, 2006 lapsed into finality when it was not appealed or submitted for reconsideration. As such, all conclusions therein are immutable and can no longer be modified by any court even by the RTC that rendered the same. The CA however erroneously altered the RTC Decision by reversing the pronouncement that PNB is a mortgagee-in-good-faith.

PNB further asseverates that its mortgage lien was carried over to the new title issued to Spouses Marañon and thus it retained the right to foreclose the subject lot upon non-payment of the secured debt. PNB asserts that it is entitled to the rent because it became the subject lot's new owner when the redemption period expired without the property being redeemed.

²² Id. at 138-158.

²³ Id. at 9-20.

²⁴ Id. at 19.

²⁵ Id. at 160-166.

²⁶ Id. at 21-23.

Ruling of the Court

We deny the petition.

It is readily apparent from the facts at hand that the status of PNB's lien on the subject lot has already been settled by the RTC in its Decision dated June 2, 2006 where it was adjudged as a mortgagee in good faith whose lien shall subsist and be respected. The decision lapsed into finality when neither of the parties moved for its reconsideration or appealed.

Being a final judgment, the dispositions and conclusions therein have become immutable and unalterable not only as against the parties but even the courts. This is known as the doctrine of immutability of judgments which espouses that a judgment that has acquired finality becomes immutable and unalterable, and may no longer be modified in any respect even if the modification is meant to correct erroneous conclusions of fact or law and whether it will be made by the court that rendered it or by the highest court of the land.²⁷ The significance of this rule was emphasized in *Apo Fruits Corporation v. Court of Appeals*,²⁸ to wit:

The reason for the rule is that if, on the application of one party, the court could change its judgment to the prejudice of the other, it could thereafter, on application of the latter, again change the judgment and continue this practice indefinitely. The equity of a particular case must yield to the overmastering need of certainty and unalterability of judicial pronouncements.

The doctrine of immutability and inalterability of a final judgment has a *two-fold* purpose: (1) to avoid delay in the administration of justice and thus, procedurally, to make orderly the discharge of judicial business and (2) to put an end to judicial controversies, *at the risk of occasional errors*, which is precisely why courts exist. Controversies cannot drag on indefinitely. The rights and obligations of every litigant must not hang in suspense for an indefinite period of time. The doctrine is not a mere technicality to be easily brushed aside, but a matter of public policy as well as a time-honored principle of procedural law.²⁹ (Citations omitted)

Hence, as correctly argued by PNB, the issue on its status as a mortgagee in good faith have been adjudged with finality and it was error for the CA to still delve into and, worse, overturn, the same. The CA had no other recourse but to uphold the status of PNB as a mortgagee in good faith

²⁷ *Keppel Cebu Shipyard, Inc. v. Pioneer Insurance and Surety Corporation*, G.R. Nos. 180880-81, September 18, 2012, 681 SCRA 44, 60, citing *FGU Insurance Corporation v. Regional Trial Court of Makati City, Branch 66*, G.R. No. 161282, February 23, 2011, 644 SCRA 50.

²⁸ G.R. No. 164195, December 4, 2009, 607 SCRA 200.

²⁹ *Id.* at 213-214.

regardless of its defects for the sake of maintaining stability of judicial pronouncements. “The main role of the courts of justice is to assist in the enforcement of the law and in the maintenance of peace and order by putting an end to judicable controversies with finality. Nothing better serves this role than the long established doctrine of immutability of judgments.”³⁰

Further, it must be remembered that what reached the CA on *certiorari* were RTC resolutions issued long after the finality of the Decision dated June 2, 2006. The RTC Orders dated September 8, 2006 and December 6, 2006 were implements of the pronouncement that Spouses Marañon are still the rightful owners of the subject lot, a matter that has been settled with finality as well. This notwithstanding, the Court agrees with the ultimate outcome of the CA’s assailed resolutions.

Rent is a civil fruit³¹ that belongs to the owner of the property³² producing it by right of accession^{33,34}. The rightful recipient of the disputed rent in this case should thus be the owner of the subject lot at the time the rent accrued. It is beyond question that Spouses Marañon never lost ownership over the subject lot. This is the precise consequence of the final and executory judgment in Civil Case No. 7213 rendered by the RTC on June 3, 2006 whereby the title to the subject lot was reconveyed to them and the cloud thereon consisting of Emilie’s fraudulently obtained title was removed. Ideally, the present dispute can be simply resolved on the basis of such pronouncement. However, the application of related legal principles ought to be clarified in order to settle the intervening right of PNB as a mortgagee in good faith.

The protection afforded to PNB as a mortgagee in good faith refers to the right to have its mortgage lien carried over and annotated on the new certificate of title issued to Spouses Marañon³⁵ as so adjudged by the RTC. Thereafter, to enforce such lien thru foreclosure proceedings in case of non-payment of the secured debt,³⁶ as PNB did so pursue. The principle,

³⁰ Id. at 212-213.

³¹ CIVIL CODE, Article 442. Natural fruits are the spontaneous products of the soil, and the young and other products of animals.

Industrial fruits are those produced by lands of any kind through cultivation of labor.

Civil fruits are the rent of buildings, the price of leases of lands and other property and the amount of perpetual or life annuities or other similar income.

³² CIVIL CODE, Article 441. To the owner belongs:

- (1) The natural fruits;
- (2) The industrial fruits;
- (3) The civil fruits.

³³ CIVIL CODE, Article 440. The ownership of property gives the right of accession to everything which is produced thereby or which is incorporated or attached thereto, either naturally or artificially.

³⁴ *Equatorial Realty Development, Inc. v. Mayfair Theater, Inc.*, 421 Phil. 709, 730 (2001).

³⁵ *See Philippine Banking Corporation v. Dy*, G.R. No. 183774, November 14, 2012, 685 SCRA 567, 577.

³⁶ *Equitable PCI Bank, Inc. v. OJ-Mark Trading, Inc.*, G.R. No. 165950, August 11, 2010, 628 SCRA 79, 91.

however, is not the singular rule that governs real estate mortgages and foreclosures attended by fraudulent transfers to the mortgagor.

Rent, as an accessory follow the principal.³⁷ In fact, when the principal property is mortgaged, the mortgage shall include all natural or civil fruits and improvements found thereon when the secured obligation becomes due as provided in Article 2127 of the Civil Code, *viz*:

Art. 2127. The mortgage extends to the natural accessions, to the improvements, growing fruits, and the rents or income not yet received when the obligation becomes due, and to the amount of the indemnity granted or owing to the proprietor from the insurers of the property mortgaged, or in virtue of expropriation for public use, with the declarations, amplifications and limitations established by law, whether the estate remains in the possession of the mortgagor, or it passes into the hands of a third person.

Consequently, in case of non-payment of the secured debt, foreclosure proceedings shall cover not only the hypothecated property but all its accessions and accessories as well. This was illustrated in the early case of *Cu Unjieng e Hijos v. Mabalacat Sugar Co.*³⁸ where the Court held:

That a mortgage constituted on a sugar central includes not only the land on which it is built but also the buildings, machinery, and accessories installed at the time the mortgage was constituted as well as the buildings, machinery and accessories belonging to the mortgagor, installed after the constitution thereof x x x [.]³⁹

Applying such pronouncement in the subsequent case of *Spouses Paderes v. Court of Appeals*,⁴⁰ the Court declared that the improvements constructed by the mortgagor on the subject lot are covered by the real estate mortgage contract with the mortgagee bank and thus included in the foreclosure proceedings instituted by the latter.⁴¹

However, the rule is not without qualifications. In *Castro, Jr. v. CA*⁴² the Court explained that Article 2127 is predicated on the presumption that the ownership of accessions and accessories also belongs to the mortgagor as the owner of the principal. After all, it is an indispensable requisite of a valid real estate mortgage that the mortgagor be the absolute owner of the encumbered property, thus:

³⁷ *Torbela v. Rosario*, G.R. No. 140528, December 7, 2011, 661 SCRA 633, 675.

³⁸ 58 Phil. 439 (1933).

³⁹ *Id.* at 445, citing *Bischoff v. Pomar and Compania General de Tabacos*, 12 Phil. 690 (1909).

⁴⁰ 502 Phil. 76 (2005).

⁴¹ *Id.* at 95.

⁴² 321 Phil. 262 (1995).

[A]ll improvements subsequently introduced or owned by *the mortgagor* on the encumbered property are deemed to form part of the mortgage. That the improvements are to be considered so incorporated only if so owned by the mortgagor is a rule that can hardly be debated since a contract of security, whether, real or personal, needs as an indispensable element thereof the ownership by the pledgor or mortgagor of the property pledged or mortgaged. x x x.⁴³ (Citation omitted)

Otherwise stated, absent an adverse claimant or any evidence to the contrary, all accessories and accessions accruing or attached to the mortgaged property are included in the mortgage contract and may thus also be foreclosed together with the principal property in case of non-payment of the debt secured.

Corollary, any evidence sufficiently overthrowing the presumption that the mortgagor owns the mortgaged property precludes the application of Article 2127. Otherwise stated, the provision is irrelevant and inapplicable to mortgages and their resultant foreclosures if the mortgagor is later on found or declared to be not the true owner of the property, as in the instant case.

It is beyond question that PNB's mortgagors, Spouses Montealegre, are not the true owners of the subject lot much less of the building which produced the disputed rent. The foreclosure proceedings on August 16, 1991 caused by PNB could not have, thus, included the building found on the subject lot and the rent it yields. PNB's lien as a mortgagee in good faith pertains to the subject lot alone because the rule that improvements shall follow the principal in a mortgage under Article 2127 of the Civil Code does not apply under the premises. Accordingly, since the building was not foreclosed, it remains a property of Spouses Marañon; it is not affected by non-redemption and is excluded from any consolidation of title made by PNB over the subject lot. Thus, PNB's claim for the rent paid by Tolete has no basis.

It must be remembered that there is technically no juridical tie created by a valid mortgage contract that binds PNB to the subject lot because its mortgagor was not the true owner. But by virtue of the mortgagee in good faith principle, the law allows PNB to enforce its lien. We cannot, however, extend such principle so as to create a juridical tie between PNB and the improvements attached to the subject lot despite clear and undeniable evidence showing that no such juridical tie exists.

⁴³

Id. at 267.

Lastly, it is worthy to note that the effects of the foreclosure of the subject lot is in fact still contentious considering that as a purchaser in the public sale, PNB was only substituted to and acquired the right, title, interest and claim of the mortgagor to the property as of the time of the levy.⁴⁴ There being already a final judgment reconveying the subject lot to Spouses Marañon and declaring as null and void Emilie's purported claim of ownership, the legal consequences of the foreclosure sale, expiration of the redemption period and even the consolidation of the subject lot's title in PNB's name shall be subjected to such final judgment. This is the clear import of the ruling in *Unionbank of the Philippines v. Court of Appeals*:⁴⁵

This is because as purchaser at a public auction, UNIONBANK is only substituted to and acquires the right, title, interest and claim of the judgment debtors or mortgagors to the property at the time of levy. Perforce, the judgment in the main action for reconveyance will not be rendered ineffectual by the consolidation of ownership and the issuance of title in the name of UNIONBANK.⁴⁶ (Citation omitted)

Nonetheless, since the present recourse stemmed from a mere motion claiming ownership of rent and not from a main action for annulment of the foreclosure sale or of its succeeding incidents, the Court cannot proceed to make a ruling on the bearing of the CA's Decision dated June 18, 2008 to PNB's standing as a purchaser in the public auction. Such matter will have to be threshed out in the proper forum.

All told, albeit the dispositive portions of the assailed CA decision and resolution are differently premised, they ought to be upheld as they convey the similar conclusion that Spouses Marañon are the rightful owners of the rent earned by the building on the subject lot.

WHEREFORE, foregoing considered, the petition is hereby **DENIED**. The Decision dated June 18, 2008 and Resolution dated August 10, 2009 of the Court of Appeals in CA-G.R. SP No. 02513 are **AFFIRMED**.

SO ORDERED.


BIENVENIDO L. REYES
Associate Justice

⁴⁴ *PNB v. CA*, 341 Phil. 72, 82 (1997).

⁴⁵ 370 Phil. 837 (1999).

⁴⁶ Id. at 848.

WE CONCUR:


MARIA LOURDES P. A. SERENO
Chief Justice
Chairperson


TERESITA J. LEONARDO-DE CASTRO
Associate Justice


LUCAS P. BERSAMIN
Associate Justice


MARTIN S. VILLARAMA, JR.
Associate Justice

CERTIFICATION

Pursuant to Section 13, Article VIII of the Constitution, I certify that the conclusions in the above Resolution had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.


MARIA LOURDES P. A. SERENO
Chief Justice