



Republic of the Philippines
Supreme Court
Manila

SECOND DIVISION

DEVELOPMENT BANK OF
THE PHILIPPINES,

G.R. No. 196476

Petitioner,

- versus -

Present:

PERLAS-BERNABE,
Chairperson,
HERNANDO,
INTING,
DELOS SANTOS,* and
BALTAZAR-PADILLA,** JJ.

HEIRS OF JULIETA L. DAN-
ICO, namely, ROGELIO L.
DANICO, CORAZON D. EME-
TERIO, NENITA D. YBAÑEZ,
RODRIGO L. DANICO,
DANILO L. DANICO, DANIEL
L. DANICO, GLORIA ESCRU-
PULO, VILMA MOSQUEDA,
and NATIONAL POWER
CORPORATION,

Respondents.

Promulgated:

28 SEP 2020

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DECISION

HERNANDO, J.:

Challenged in this Petition¹ is the December 2, 2010 Decision² of the Court of Appeals (CA) in CA-GR. CV No. 78619 which affirmed *in toto* the Regional Trial Court's (RTC) January 2, 2003 Decision³ which: (a) declared

* On official leave.

** On leave.

¹ *Rollo*, pp. 9-29.

² CA *rollo*, pp. 150-167; penned by Associate Justice Angelita A. Gacutan and concurred in by Associate Justices Edgardo A. Camello and Rodrigo F. Lim, Jr.

³ Records, pp. 234-245; penned by Judge Rolando S. Venadas, Sr.

the extrajudicial foreclosure of the property covered by Transfer Certificate of Title (TCT) No. T-8127⁴ and its subsequent consolidation under TCT No. T-19241 in the name of the Development Bank of the Philippines (DBP) as valid and legal; (b) directed the DBP to accept the total amount of ₱301,350.50 as full payment for Julieta and Daniel Danico's (Spouses Danico) loan obligation; and (c) declared the National Power Corporation (NPC) as without any liability.

The Antecedents

On April 22, 1977, the Spouses Danico obtained an agricultural loan from petitioner DBP in the total amount of ₱150,000.00 which was secured by: a) real estate mortgage (REM) over their four (4) real properties covered by Original Certificate of Title (OCT) No. P-1439, TCT No. T-8127, TCT No. T-3278 and OCT No. P-537;⁵ and b) a chattel mortgage over one unit of Massey Ferguson tractor and accessories.⁶

On July 12, 1982, the Department of Agrarian Reform (DAR) issued a Certification seizing the mortgaged real properties covered by OCT No. P-1439, TCT No. T-3278 and OCT No. P-537 and placing them under the coverage of Presidential Decree No. 27, otherwise known as the Operation Land Transfer.⁷

On August 6, 1982, DBP extrajudicially foreclosed the real property covered by TCT No. T-8127 for failure of the Spouses Danico to pay their loan obligation. Upon the expiration of the redemption period on September 12, 1983, DBP consolidated the ownership of the real property covered by TCT No. T-8127 as per Sheriff Certificate of Sale and Affidavit of Consolidation of Ownership dated September 12, 1983.⁸ As a result, TCT No. T-8127 was canceled and TCT No. T-19241 was issued in the name of DBP.⁹

On September 9, 1985, NPC bought from the Spouses Danico the following: (a) Lot No. 861 which is covered by OCT No. P-1439; (b) Lot No. 857-B which is a portion of the land covered by TCT No. T-3278, as the two lots are part of the NPC's Reservoir Area. As per the Deed of Absolute Sale of Registered Land dated September 9, 1985,¹⁰ Lot No. 861 covered by OCT No. P-1439 was sold by the Danicos to NPC in the total amount of ₱511,290.00 provided that:

I, DANIEL DANICO, x x x married to JULIETA LUBOS DANICO, x x x for and in consideration of the sum of FIVE HUNDRED ELEVEN THOUSAND TWO HUNDRED NINETY PESOS ONLY (₱511,290.00), x x x , do hereby SELL, TRANSFER AND CONVEY unto the said NATIONAL POWER CORPORATION, x x x that certain parcel of land x x x with TCT No. T-P-1439 x x x

⁴ Also mentioned as T-8147 in some parts of the records.

⁵ Also mentioned as TCT No. T-537 in some parts of the records.

⁶ *Records*, p. 197.

⁷ *Id.*

⁸ *Id.* at 198.

⁹ *Id.* at 20.

¹⁰ *Id.* at 183-184.

x x x x

That pursuant to the Statement of Account and Certification issued by the DEVELOPMENT BANK OF THE PHILIPPINES, x x x the herein aforementioned parcel of land is presently mortgaged at said bank at a total amount of ₱393,353.97, account as of December 31, 1985, that the consideration of the sale shall be that the remaining amount of the proceeds of the sale of the above-mentioned lot after paying the herein tenants and the Realty Tax[s] and Capital Gain[s] Tax to the concerned parties, whatever amount left be paid and issued in separate check to the herein DEVELOPMENT BANK OF THE PHILIPPINES;¹¹

On the other hand, the Deed of Absolute Sale of a Portion of Registered Land¹² states that Lot No. 857-B covered by TCT No. T-3278 was sold by the Spouses Danico to NPC in the total amount of ₱242,644.50 provided that:

I, DANIEL DANICO, x x x married to JULIETA LUBOS DANICO, x x x for and in consideration of the sum of TWO HUNDRED FORTY TWO THOUSAND SIX HUNDRED FORTY FOUR PESOS & 50/100 ONLY (₱242,644.50), Philippine Currency, x x x do hereby SELL, TRANSFER AND CONVEY unto the said NATIONAL POWER CORPORATION, x x x that certain parcel of land x x x with TCT No. T-3278 x x x

x x x x

That pursuant to the Statement of Account and Certification issued by the DEVELOPMENT BANK OF THE PHILIPPINES, x x x the herein aforementioned parcel of land is presently mortgaged at said bank at a total cost of ₱509,320.82, account as of April 30, 1985, that the consideration of the sale shall be that the remaining amount unpaid after the proceeds of another parcel of land had been applied to the said mortgaged loan to the herein bank and consumated (sic) out of the proceeds of the aforementioned parcel of land herein conveyed, and same shall be issued in separate check in favor of the herein bank;¹³

DBP agreed to the sale of the two lots to NPC on the condition that a portion of the proceeds would be applied to the Spouses Danico's outstanding obligation with DBP. However, NPC paid DBP only the total amount of ₱92,003.47¹⁴ from the proceeds of the sale of a portion of land covered by TCT No. T-3278 as per Official Receipt No. 2205487 dated November 17, 1986.¹⁵ NPC did not remit to DBP the amount ₱301,350.50 from the proceeds of the sale of the land covered by OCT No. P-1439.¹⁶

Meanwhile, on October 10, 1985, DBP and Daniel entered into a Deed of Conditional Sale¹⁷ of the parcel of land covered by TCT No. T-8127, now TCT No. T-19241, for a total consideration of ₱491,600.00 subject to the following terms and

¹¹ Id.

¹² Id. at 185-186.

¹³ Id.

¹⁴ Alternatively mentioned as ₱93,003.97 in some parts of the records.

¹⁵ Records, p. 190.

¹⁶ Id. at 188.

¹⁷ Id. at 216-220.

conditions:

1. That the amount of ONE HUNDRED EIGHTEEN THOUSAND TWENTY ONE & 20/100 PESOS (P118,021.20) previously paid by the Vendee to the Vendor prior to the execution of the contract of conditional sale, shall constitute the downpayment on this contract and the balance of THREE HUNDRED SEVENTY THREE THOUSAND FIVE HUNDRED SEVENTY EIGHT & 70/100 (P 373,578.70) shall be paid within a period of one (1) year/s on the annual amortization plan with interest at the rate of twenty-one per centum (21%) per annum. The first amortization shall be due on September 30, 1986 in the amount of FOUR HUNDRED FIFTY TWO THOUSAND THIRTY & 35/100 PESOS (P452,030.35) which includes principal and interest;

2. That the interest and expenses with interest thereon accruing from September 30, 1985 up to the date of execution of the sale document shall be paid by the Vendee (applicable to sales to former owners);¹⁸ (Emphasis supplied)

On February 24, 1987, NPC requested DBP to release the copy of OCT No. P-1439 (now TCT No. T-21793 in the name of NPC).¹⁹ It reasoned that Disbursement Voucher No. P4-2-0-85-11-3449²⁰ dated November 12, 1986 in the amount of P301,350.50 had already been issued by NPC to DBP in payment for the sale of the land covered by OCT No. P-1439. However, payment to DBP was put on hold pending compliance with the requirement of the Commission on Audit.²¹

On the same day, DBP issued a Certification that it will only release the original copy of OCT No. P-1439 if the proceeds of the sale of the said property in the amount of P301,350.50 had already been paid.²²

Meanwhile, on January 10, 1999, Julieta Danico and her heirs filed with RTC, Branch 9, Malaybalay City, a complaint against DBP and NPC for the cancellation or release of mortgage over the four (4) properties covered by the real estate mortgage, which was docketed as Civil Case No. 2881-99.²³ They contended that the Spouses Danico's total loan obligation in the amount of P393,353.97 had already been satisfied when NPC paid petitioner DBP the total amount of P394,069.75. Hence, they prayed that DBP release the mortgage over the foreclosed residential property covered by TCT No. T-8127 (now TCT No. T-19241 in the name of DBP). They likewise prayed that a restraining order be issued against DBP to enjoin the latter from taking possession of the land covered by TCT No. T-8127 (now TCT No. T-19241).

On May 7, 1999, petitioner DBP, on the other hand, filed with the same trial court, a petition for the issuance of a writ of possession over the parcel of land now covered by TCT No. T-19241 in the name of DBP, which was docketed as Misc. Case No. 338-99.²⁴

¹⁸ Id. at 216.

¹⁹ Id. at 193.

²⁰ Id. at 192.

²¹ Id. at 193.

²² Id. at 194.

²³ Id. at i-8.

²⁴ Id. at 240.

On July 13, 1999, DBP filed its Answer with Affirmative Defenses, Counterclaim and Crossclaim.²⁵ DBP denied the allegations of Julieta and her heirs and averred that the Spouses Danico's total loan obligation in the amount of ₱509,520.82 as per Statement of Account dated April 30, 1985 covered only the unforeclosed properties, namely, OCT No. P-1439, TCT No. T-3278 and OCT No. P-537 and not the property covered by TCT No. T-8127 (now TCT No. T-19241) since the latter was already foreclosed by DBP in 1982 even before NPC bought the real properties covered by OCT No. P-1439 and TCT No. T-3278 in 1985. It further denied receipt of payment from NPC of the amount ₱301,350.50 and averred that the mere issuance by the latter of a disbursement voucher did not necessarily constitute payment of the total loan obligation unless tender of payment, in the form of cash or check, had been made by NPC to DBP.

On August 11, 1999, NPC filed its Answer²⁶ alleging that it already paid DBP the amount ₱301,350.50 as per Disbursement Voucher No. P4-2-0-85-11-3449 dated November 12, 1986 and Check No. 117684 issued in the name of DBP.

On May 19, 2000, the trial court ordered the joint trial of Misc. Case No. 338-99 and Civil Case No. 2881-99.²⁷

On November 10, 2000, the trial court issued a Pre-Trial Order with the following stipulation of facts:

1. That [Spouses Danico] obtained an agricultural loan from defendant DBP in the amount of ₱150,000.00 x x x secured by a real estate mortgage on four (4) titled properties, three (3) of which were agricultural lands and one (1) was a residential land and a chattel mortgage over a tractor.
2. That [NPC] and [Spouses Danico] entered into a contract of sale over two (2) agricultural lands as aforementioned and it was agreed that the proceeds thereof will be used to pay [Daniel's] loan with the x x x DBP.
3. That [DBP] maintained that [it only received] the sum of ₱92,003.47 out of the total proceeds of the sale x x x. Hence, the rest of the amount has to be accounted for. However, [NPC] is willing to pay the amount of ₱301,350.00 for which it has already prepared a check which has become stale because it was never given to the DBP and that neither DBP took it from the [NPC].
4. At the time of the execution of the contract of sale over the two (2) agricultural lands the total pending account of the [Spouses Danico] with the x x x DBP was in the amount of ₱509,520.82 as of April 30, 1985, which x x x defendant NAPOCOR was ready to pay the amount of ₱301,350.00.
5. That Annex B to the complaint is a statement of account admittedly sent by defendant DBP to the [Spouses Danico] showing a balance only of ₱393,353.90 inclusive of interest as of the date of the statement of account x x x.

²⁵ Id. at 37-43.

²⁶ Id. at 62-65.

²⁷ Id. at 105.

6. That x x x Annex B to the complaint x x x refers to the account as of December 31, 1985; that the residential house at that time was already foreclosed by the DBP on August 6, 1982, now consolidated on September 12, 1983 under [DBP'S] name.

7. That x x x the other collateral covered by OCT No. P-1439, TCT No. T-3278 and TCT No. T-537 (sic) and one unit Massey Ferguson agricultural tractor with trailer harrow and accessories remained unforeclosed up to the present time.

8. That the said three (3) unforeclosed real properties were all tenanted and presently covered by the Land Reform Program under PD No. 27 on July 12, 1982 as Annex D to the answer.

9. That on November 15, 1984 x x x Julieta x x x requested for statement of account of the two (2) unforeclosed real estate property covered by TCT No. T-3278 and OCT No. P-1439 which she alleged [have already been] paid by [NPC] and that according to her she will obtain a DAR clearance for that purpose.

10. That according to defendant DBP the total loan account of the foreclosed property as of April 30, 1985 amounted to ₱509,520.82 x x x

11. That the amount of ₱301,350.00 was not yet paid by defendant [NPC] to defendant DBP although the corresponding check voucher has already been prepared by [NPC] x x x.²⁸

On March 1, 2001, the RTC issued an Order²⁹ holding in abeyance the trial of the case pending the tender of payment by NPC to DBP of the amount of ₱301,350.50.

On May 7, 2001, NPC filed a Manifestation³⁰ that the check in the total amount of ₱301,350.50 issued in the name of DBP was ready to be delivered to DBP provided that the latter surrender TCT No. T-21793 and TCT No. T-3278.

However, petitioner DBP refused to accept the check in the total amount of ₱301,350.50 on the ground that the said amount did not include the interest allegedly due. Thus, on June 28, 2001, the RTC ordered the consignment of the said check with DBP, Malaybalay City Branch which shall be under the name and custody of the RTC Clerk of Court, Branch 9, Malaybalay City.³¹

Thereafter, the parties filed their respective memoranda.

Ruling of the Regional Trial Court:

On January 2, 2003, the RTC rendered its Decision³² declaring the extrajudicial foreclosure of TCT No. T-8127 and its subsequent consolidation under TCT No. T-19241 in the name of DBP as valid and legal. It also directed DBP to accept the amount of ₱301,350.50 as full payment of the Spouses Danico's loan obligation and

²⁸ Id. at 127-128.

²⁹ Id. at 130.

³⁰ Id. at 143-144.

³¹ Id. at 146.

³² Id. at 234-245.

declared NPC as without any liability.

Petitioner DBP and respondents heirs and Julieta filed an appeal³³ before the CA. On June 9, 2010, the heirs of Julieta filed a Notice of Death and Substitution of the Heirs³⁴ on account of Julieta's death on January 10, 2000.

Ruling of the Court of Appeals:

On December 2, 2010, the CA rendered its assailed Decision³⁵ holding that respondent NPC's obligation to petitioner DBP was only ₱393,353.97 and not ₱509,320.82 by reason of the following: (a) the two deeds of sale of the real properties covered by OCT No. P-1439 and TCT No. T-3278 stated that the obligation of the Spouses Danico as of December 31, 1985 was only ₱393,353.97; and (b) DBP's own admission in its Certification dated February 24, 1987 that it will only release the original copy of the OCT No. P-1439 upon payment by NPC of the amount of ₱301,350.50, which is the difference after deducting NPC's first payment of ₱92,003.47 from ₱393,353.97 which is the Spouses Danico's outstanding obligation as of December 31, 1985.

As to the DBP's contention that NPC is liable to pay interest, penalties and interest charges for the delay in the payment of ₱301,350.50, the appellate court held that since DBP did not ask for interest charges when it signified its conformity with the two deeds of sale, it cannot now ask for the payment of interest. Neither can DBP claim interest pursuant to the stipulation in the mortgage instrument stating that the vendee and vendor shall be jointly and severally liable for the said mortgage obligations including payment of interest because said provision applies only when the mortgagor conveys or encumbers the mortgaged properties without the written consent of the mortgagee, which circumstance is not present in this case since DBP consented to the sale of the two mortgaged properties.

Also, DBP cannot claim interest by reason of delayed payment because it failed to present evidence that it extrajudicially demanded for the payment of the principal amount and its corresponding interest prior to NPC's tender of payment of the amount of ₱301,350.50. Hence, petitioner DBP's appeal was denied.

The appeal of the heirs of Julieta was likewise denied by the CA for their failure to assail the ruling of the RTC regarding the validity and legality of the extrajudicial foreclosure of the parcel of land covered by TCT No. T-8127.

On January 18, 2011, petitioner DBP filed a Motion for Reconsideration but it was denied by the CA in its March 25, 2011 Resolution.³⁶

Hence, this Petition.

³³ Id. at 249-251.

³⁴ CA *rollo*, pp. 145-147.

³⁵ Id. at 150-167.

³⁶ Id., unpaginated.

Issues

The issues presented for Our resolution are as follows:

1. Is respondent NPC liable to pay the total amount of ₱902,674,79?; and
2. Is respondent NPC liable to pay interest and penalty charges?

The Court's Ruling

At the outset, we state that the issue regarding the validity of the foreclosure by DBP of the REM over TCT. No. T-8127 has already been settled for failure of the heirs of Danico to file an appeal. It is settled that no affirmative relief can be granted to those parties who did not appeal.

DBP claims that there are two separate and distinct obligations, namely: (a) Contract Mortgage Receivable (CMR) agricultural account in the total amount of ₱393,353.97 as of December 31, 1985 as per Deed of Absolute Sale of Registered Land dated September 9, 1985; and (b) original loan account in the total amount of ₱509,320.82 as of April 30, 1985 arising from the Deed of Absolute Sale of a Portion of Registered Land dated September 9, 1985. The CMR agricultural account pertains to the repurchase of TCT No. T-19241 (originally TCT No. T-8127) by the Spouses Danico from petitioner DBP in the Deed of Conditional Sale dated October 10, 1985 while the original loan account pertains to the unforeclosed properties of the Spouses Danico by virtue of their original agricultural loan dated April 22, 1977. Thus, the total amount of obligation of the Spouses Danico to DBP is ₱902,674.79 excluding accrued interests and default charges.

DBP contends that as of December 31, 1985, the outstanding obligation of the Spouses Danico in their CMR agricultural account was ₱393,353.97, which amount ought to be paid in order for the mortgage to be cancelled and for TCT No. T-3278 to be released. However, respondent NPC belatedly paid only the amount of ₱92,003.47 as per Official Receipt No. 2205487 on November 17, 1986 instead of December 31, 1985 as per the Deed of Sale. The remaining amount of ₱301,350.50 was tendered and consigned with the RTC Clerk of Court as reflected in the lower court's Order dated June 28, 2001. DBP argues that the failure of the Spouses Danico and respondent NPC to comply with their obligation to pay the total amount of ₱393,353.97 on or before December 31, 1985 entitles DBP to claim interest and penalty charges.

Furthermore, DBP argues that the outstanding balance on the original loan obligation on the unforeclosed properties of the Spouses Danico was ₱509,520.82 as of April 30, 1985, which amount has not yet been paid. In the Deed of Sale dated September 9, 1985, the sale consideration for a portion of Lot No. 857 covered by TCT No. T-3278 was ₱242,644.50. The parties admitted that Lot No. 857 was mortgaged with DBP in the total amount of

₱509,320.82, which amount ought be paid first for the mortgage to be cancelled and the title to be released.

Based on the foregoing, DBP claims that the Spouses Danico had two separate and distinct loan obligations as shown in the two Statements of Accounts dated December 31, 1985 and April 30, 1985. Hence, DBP claims that the judgment award in the amount of ₱301,350.50 is insufficient to fully settle the total obligation in the amount of ₱902,674.79.³⁷

DBP maintains that its right to collect interests, penalty and other bank charges is anchored on the contract of agricultural loan and promissory note executed by the Spouses Danico on April 22, 1977. It claims that its conformity to the two Deeds of Sale did not in any way amend, modify nor divest it of its right to demand and collect interests and penalty charges when the NPC defaulted on its obligations as per the two Deeds of Sale.

Moreover, DBP argues that the Spouses Danico and the NPC were both aware of the stipulation in the Deed of Mortgage that:

The Mortgagor shall not sell, dispose of, mortgage, nor in any manner encumber the mortgage property without the written consent of the Mortgagee. If in spite of this stipulation the property is sold, the Vendee shall assume the mortgage in the terms and conditions under which it is constituted it being understood that the assumption by the Vendee shall not release the Vendor of his obligation to the Mortgagee; on the contrary, both Vendor and Vendee shall be jointly and severally liable for said mortgage obligation. In case a second mortgage of other involuntary encumbrance is constituted, the second Mortgagee or junior encumbrances shall recognize the existing mortgage in favor of the Mortgagee as first lien and shall further agree, promise and bind himself to recognize and consider the extension of any term of said mortgage by the Mortgagee in favor of the Mortgagor or a new mortgage covering the same property to be executed by said Mortgagor in favor of the Mortgagee as first and superior encumbrance.³⁸

DBP further argues that since NPC and the Spouses Danico failed to comply with the two Deeds of Sale by delivering the proceeds of the sale and applying the same on their loan accounts, DBP's consent to the Deeds of Sale is deemed not to have been given which renders the above-quoted provision instantly applicable to the present case. As a result, both NPC as vendee, and the Spouses Danico as vendors, shall be jointly and severally liable for the mortgage obligation including interests and penalty charges for default payment.

On the other hand, NPC contends that the Deed of Sale involving the land covered by OCT No. P-1439 provides no stipulation as to the payment of interest which renders DBP's claim for interest without legal basis. Moreover, NPC argues that DBP cannot invoke the applicability of the Deed of Mortgage

³⁷ ₱393,353.97 + ₱509,320.827.

³⁸ Records, p. 44.

to collect interest because the two deeds of sale between NPC and the Spouses Danico were executed with the express conformity of DBP as stipulated therein. Thus, petitioner DBP cannot now impugn the deeds of sale which it willingly consented to.

Moreover, NPC claims that from the moment petitioner DBP gave its consent, the latter is bound to fulfill what was expressly stipulated and its consequences. Also, the deeds of sale do not contain any reservation of ownership in case of failure of delivery of payment.

We partly agree with petitioner DBP.

Is NPC liable to pay DBP the total amount of ₱902,674.79?

A perusal of the records would reveal that the parties entered into two deeds of sale, namely: (a) Deed of Absolute Sale of Registered Land (first deed of sale) dated September 9, 1985 with a total consideration of ₱511,290.00 involving Lot No. 861 covered by OCT No. P-1439;³⁹ and (b) Deed of Absolute Sale of a Portion of Registered Land (second deed of sale) dated September 9, 1985 with a total consideration of ₱242,644.50⁴⁰ referring to a portion of Lot No. 857 which is covered by TCT No. T-3278. Notably, these two lots were part of the properties subject of the REM to secure the Spouses Danico's original agricultural loan with DBP executed on April 22, 1977.

The first deed of sale contains a stipulation that Lot No. 861 covered by OCT No. P-1439 and reflected in the Statement of Account as of December 31, 1985, is presently mortgaged with petitioner DBP in the total amount of ₱393,353.97. It is worth noting that the amount ₱393,353.97⁴¹ stated in the Statement of Account as of December 31, 1985 corresponds to the consideration in the Deed of Conditional Sale of TCT No. T-8127 (now T-19241) executed by DBP and the Danicos with ₱373,578.80 as the remaining balance and ₱19,775.17 as the interest on the unmatured principal, to wit:

Deed of Conditional Sale dated October 10, 1985

1. That the amount of ONE HUNDRED EIGHTEEN THOUSAND TWENTY ONE & 20/100 PESOS (₱118,021.20) previously paid by the Vendee to the Vendor prior to the execution of the contract of conditional sale, shall constitute the downpayment on this contract and **the balance of THREE HUNDRED SEVENTY THREE THOUSAND FIVE HUNDRED SEVENTY EIGHT (₱373,578.70)** shall be paid within a period of one (1) year/s on the annual amortization plan **with interest at the rate of twenty-one per centum (21%) per annum.** The first amortization shall be due on September 30, 1986 FOUR HUNDRED TWO THOUSAND THIRTY & 35/100 PESOS (₱52,030.35)

³⁹ Id. at 183-184.

⁴⁰ Id. at 185-186.

⁴¹ ₱373,578.80 + ₱19,775.17 (interest on unmatured principal) = ₱393,353.97

which includes principal and interest;⁴² [Emphasis supplied.]

Statement of Account as of December 31, 1985

X X X X

UNMATURED

Principal portion ₱373,578.80

Interest on unmatured principal . 19,775.17 ₱393,353.97⁴³

According to the DBP, the amount indicated in the Statement of Account as of December 31, 1985 refers to the loan obligation of the Spouses Danico under the Deed of Conditional Sale or the CMR agricultural loan to repurchase TCT No. T-8127 (now TCT No. T-19241). The deed of sale further stipulates that after paying the tenants, real property tax and capital gains tax, the remaining amount from the proceeds of the sale, that is, ₱511,290.00, shall be remitted to DBP in payment for the Spouses Danico's obligation as per the Statement of Account as of December 31, 1985. The first deed of sale also mentioned that the balance of the proceeds of the sale of Lot No. 861 which is covered by OCT No. P-1439 shall be applied to the remaining balance of Daniel Danico's loan secured by his other parcel of land, that is, a portion of Lot No. 857 covered by TCT No. T-3278, which is likewise purchased and acquired by respondent NPC. The first deed of sale provides, thus:

That pursuant to the Statement of Account and Certification issued by the DEVELOPMENT BANK OF THE PHILIPPINES, Malaybalay Branch, Malaybalay, Bukidnon, a copy of which is hereto attached to form part and integral hereof, the herein aforementioned parcel of land is presently mortgaged at said bank at a total amount of ₱393,353.97, account as of December 31, 1985, that the consideration of the sale shall be that the remaining amount of the proceeds of the sale of the above-mentioned lot after paying the herein tenants and the Realty Taxes (sic) and Capital Gain Tax to the concerned parties, whatever amount left be paid and issued in separate check to the herein DEVELOPMENT BANK OF THE PHILIPPINES;

That the herein Vendee, DANIEL DANICO, agrees and hereby agree that the remaining balance of his mortgaged loan/mortgaged amount to DBP, be also deducted and applied on his other parcel of land, identified as Lot No. 857, Pls-9, covered by TCT No. T-3278, which said particular parcel of land is also to be affected, acquired and purchased by NATIONAL POWER CORPORATION for its RESERVOIR AREA, for its Pulangi IV-HE Project at Maramag, Bukidnon;⁴⁴ [Emphasis supplied.]

On the other hand, the second deed of sale provides that as of April 30, 1985, Lot No. 857 is presently mortgaged to petitioner DBP for ₱509,320.82. It further provides that the balance of the proceeds in the first deed of sale shall be applied to this mortgage loan as per Statement of Account as of April

⁴² Records, p. 216.

⁴³ Id. at 187.

⁴⁴ Id. at 184.

30, 1985, that is, ₱509,320.82. Any remaining unpaid amount shall be paid out of the proceeds of the sale of a portion of Lot No. 857, that is, ₱242,644.50. Thus, the second deed of sale provides that:

That pursuant to the Statement of Account and Certification issued by the DEVELOPMENT BANK OF THE PHILIPPINES, Malaybalay Branch, Malaybalay, Bukidnon, a copy of which is hereto attached to form part and integral hereof, the herein aforementioned parcel of land is presently mortgaged at said bank at a total cost of ₱509,320.82, account as of April 30, 1985, that the consideration of the sale shall be that whatever be the remaining amount unpaid after the proceeds of another parcel of land had been applied to the said mortgaged loan to the herein bank, the remaining amount unpaid shall all be fully paid and consumated (sic) out of the proceeds of the aforementioned parcel of land herein conveyed, and same shall be issued in separate check in favor of the herein bank;

That the other parcel of land owned by the herein named Vendor is also affected by the NATIONAL POWER CORPORATION'S Reservoir Area, and same is acquired and purchased by the herein corporation, that the proceeds of the sale of said land had been applied to the loan/mortgaged amount of the Vendor to the herein DEVELOPMENT BANK OF THE PHILIPPINES, identified as Lot No. 861, Pls-9, with a total area of 113,620 square meters fully acquired and purchased by the NATIONAL POWER CORPORATION;⁴⁵ [Emphasis supplied.]

In fine, the NPC and the Spouses Danico entered into two deeds of sale and stipulated that of the two Statements of Account, the Statement of Account as of December 31, 1985 pertained to the first deed of sale while the Statement of Account as of April 30, 1985 pertained to the second deed of sale. Contrary to the ruling of the CA, the two deeds of sale are clear and unambiguous as to the existence of the two statements of account. In fact, both the Spouses Danico and the NPC adhered and agreed to the terms, conditions and stipulations embodied in the two deeds of sale knowing fully well the existence of the two statements of account.

Article 1370 of the Civil Code provides that if the terms of a contract are clear and leave no doubt upon the intention of the contracting parties, the literal meaning of its stipulation shall control.⁴⁶ If, indeed, the stipulations in the said two deeds of sale did not express the true intention of the parties, both the Spouses Danico and the NPC could have filed the corresponding action for reformation of the contract. But they did not do so. Besides, both deeds of sale had been executed on the same day, that is, on September 9, 1985. Thus, the parties knew at the time of their execution the existence of the two Statements of Account as stipulated in the contracts. They cannot now impugn the existence of Statement of Account as of April 30, 1985 when the words of both contracts are clear and readily understandable. The contract is the law between the parties. Thus, it should be interpreted according to their literal

⁴⁵ Id. at 186.

⁴⁶ *Buce v. Court of Appeals*, 387 Phil. 897, 905 (2000).

meaning and should not be interpreted beyond their obvious intendment.

This is notwithstanding the fact that DBP only referred to the Statement of Account as of December 31, 1985 in its Certification dated February 24, 1987 which states that it would only release the original copy of OCT No. P-1439 upon payment of the sale proceeds of the said property in the amount of ₱301,350.50. Even though the said Certification did not mention the Statement of Account as of April 30, 1985, it cannot be assumed from the said omission that the obligation of the Spouses Danico and the NPC pertained only to the Statement of Account as of December 31, 1985. It bears stressing that DBP simply mentioned the Statement of Account as of December 31, 1985 as it pertained to the release of OCT No. P-1439 which is the subject of the first deed of sale. As to the second deed of sale covered by TCT No. T-3278, the title is still with petitioner DBP as per Letter dated December 4, 1997 sent by petitioner DBP to respondent NPC.

Also, it is worth noting that in the Disbursement Voucher No. P4-2-0-85-11-3449 dated November 12, 1986, the proceeds of the sale of Lot No. 861 covered by OCT No. P-1439 (first deed of sale) were distributed in the following manner:⁴⁷

Sale Consideration of Lot No. 861	₱ 511,290.00
(OCT No. P-1439)	
Less:	
a) Daniel Danico (Capital Gain Tax, ₱ 96,319.50	
Documentary Stamp Tax and	
Certification Fee)	
b) Various Heirs of V. Lubos	₱100,000.00
c) Clodualdo Emeterio – Tenant	₱ 13,620.00
TOTAL	₱ 301,350.50

The remaining amount of ₱301,350.50 is the amount to be delivered to DBP as payment for the obligation of the Spouses Danico in the total amount of ₱393,353.97 pursuant to the Statement of Account as of December 31, 1985. This amount of ₱301,350.50 had already been consigned by respondent NPC with the RTC Clerk of Court, Branch 9, Malaybalay City per the June 28, 2001 Order of the RTC.

However, the records are bereft of any evidence as to what happened to the second deed of sale. The only fact proven is that out of the proceeds of the second deed of sale in the total amount of ₱242,644.50, ₱92,003.47 had been paid and applied to the Spouses Danico's obligation in the total amount of ₱393,353.97 as per Statement of Account as of December 31, 1985. The records is silent as to the whereabouts of the remaining amount of ₱150,641.03. In fact, NPC persistently insisted that their only obligation to DBP is the amount of ₱393,353.97 as shown in the Statement of Account as of December 31, 1985. No other evidence was submitted to prove that

⁴⁷ Records, p. 191.

respondent NPC paid the remaining consideration of the second deed of sale in the total amount of ₱150,641.03 to either petitioner DBP or the Spouses Danico.

Nonetheless, NPC cannot be held liable for the total amount of ₱509,320.82 as per Statement of Account as of April 30, 1985. Its obligation is only up to the extent of the selling price of the two lots. The two deeds of sale are clear that NPC's obligation pertains only to the purchase of Lot No. 861 covered by OCT No. P-1439 and Lot No. 857-B covered by TCT No. T-3278, to wit:

First Deed of Sale

I, DANIEL DANICO, x x x married to JULIETA LUBOS DANICO, x x x **for and in consideration of the sum of FIVE HUNDRED ELEVEN THOUSAND TWO HUNDRED NINETY PESOS ONLY (₱511,290.00)**, Philippine Currency, x x x do hereby SELL, TRANSFER AND CONVEY unto the said NATIONAL POWER CORPORATION, x x x that certain parcel of land belonging to me x x x with **TCT No. P-1439** (sic) x x x⁴⁸ [Emphasis supplied.]

Second Deed of Sale

I, DANIEL DANICO, x x x married to JULIETA LUBOS DANICO, x x x **for and in consideration of the sum of TWO HUNDRED FOURTY TWO THOUSAND SIX HUNDRED FOURTY FOUR PESOS & 50/100 ONLY (₱242,644.50)**, x x x do hereby SELL, TRANSFER AND CONVEY unto the said NATIONAL POWER CORPORATION, x x x that certain parcel of land x x x with **TCT No. T-3278** x x x⁴⁹ [Emphasis supplied.]

Under the deeds of sale, the proceeds of the sale shall be applied to the outstanding loan obligation of the Spouses Danico. However, NPC cannot be held liable in case the proceeds of the sale of the subject properties are insufficient to satisfy the total loan obligation of Spouses Danico.

The two deeds of sale very clearly indicate that NPC did not expressly assume the obligations of the Spouses Danico under the agricultural loan dated April 22, 1977 and the Deed of Conditional Sale dated October 10, 1985. It merely intended to purchase and acquire the two subject lots of the Spouses Danico which happened to be mortgaged with the DBP. In fact, DBP signified its approval and conformity to the said deeds of sale, to wit:

First Deed of Sale

That the herein **DEVELOPMENT BANK OF THE PHILIPPINES**, x x x **shall signify its conformity in this Deed of Absolute Sale of Registered Land** and hereby consents to the annotation of this instrument in the said TCT No. P-1439, and shall also conform and consent to the issuance of a new TCT

⁴⁸ Id. at 183.

⁴⁹ Id. at 185.

in the name of the NATIONAL POWER CORPORATION upon full payment of the purchase price;⁵⁰ [Emphasis supplied.]

Second Deed of Sale

That the herein **DEVELOPMENT BANK OF THE PHILIPPINES**, x x x **shall signify its conformity in this Deed of Absolute Sale of a Portion of Registered Land** and hereby consent to the annotation of this instrument in the said TCT No. T-3278; upon full payment of the purchase price;⁵¹ [Emphasis supplied.]

Nowhere is it stated in the said deeds of sale that respondent NPC assumed the total obligation of the Spouses Danico. Hence, based on the foregoing, respondent NPC is liable to pay DBP only the following amounts: (a) ₱301,350.50 out of the proceeds of the first deed of sale in the fulfillment of the obligation of the Spouses Danico in the total amount of ₱393,353.97 as per Statement of Account as of December 31, 1985; and (b) ₱150,641.03 out of the proceeds of the second deed of sale in the fulfillment of the Spouses Danico's obligation in the total amount of ₱509,320.82 as per Statement of Account as of April 30, 1985.

Is NPC liable to pay interest?

As to respondent NPC's liability to pay interest, Article 1956 of the Civil Code states that no interest shall be due unless it has been expressly stipulated in writing. As can be gleaned from the foregoing provision, payment of monetary interest is allowed only if: (1) there was an express stipulation for the payment of interest; and (2) the agreement for the payment of interest was reduced in writing. The concurrence of the two conditions is required for the payment of monetary interest. Thus, We have held that collection of interest without any stipulation therefor in writing is prohibited by law.⁵²

In the case at bar, it is clearly apparent that the two deeds of sale do not contain any stipulation as to the payment of monetary interest. Contrary to the contention of petitioner DBP, the stipulation as to interest in the original agricultural loan dated April 22, 1977 and the Deed of Conditional Sale dated October 10, 1985 are not applicable to NPC as the latter is not privy to the said contracts. DBP also approved and agreed with the terms and conditions of the two deeds of sale which make the below-quoted provisions of the mortgage instrument inapplicable as NPC's purchase of the two mortgaged properties were made with petitioner DBP's written consent, to wit:

The Mortgagor shall not sell, dispose of, mortgage, nor in any manner encumber the mortgage property without the written consent of

⁵⁰ Id. at 184.

⁵¹ Id. at 186.

⁵² *Philippine National Bank v. Heirs of Spouses Alonday*, 797 Phil. 152, 165-166 (2016) citing *Siga-an v. Villanueva*, 596 Phil. 760 (2009).

the Mortgagee. If in spite of this stipulation the property is sold, the Vendee shall assume the mortgage in the terms and conditions under which it is constituted it being understood that the assumption by the Vendee shall not release the Vendor of his obligation to the Mortgagee; on the contrary, both Vendor and Vendee shall be jointly and severally liable for said mortgage obligation. In case a second mortgage or other involuntary encumbrance is constituted, the second Mortgagee or junior encumbrances shall recognize the existing mortgage in favor of the Mortgagee as first lien and shall further agree, promise and bind himself to recognize and consider the extension of any term of said mortgage by the Mortgagee in favor of the Mortgagor or a new mortgage covering the same property to be executed by said Mortgagor in favor of the Mortgagee as first and superior encumbrance.⁵³ [Emphasis supplied.]

Moreover, the two deeds of sale contain no provision that NPC expressly assumed the loan obligation of the Spouses Danico. As correctly ruled by the CA:

Also, We agree with the OSG that DBP could neither claim interest from NPC by reason of the provision/stipulation in the mortgage instrument between the spouses Danico and DBP that the vendee and vendor shall be jointly and severally liable for the said mortgage obligations including payment of interest because said provision applies only when the mortgagor conveys or encumbers the mortgaged properties without the written consent of the mortgagee, which circumstance is not obtaining in the instant case since DBP signified its consent to the sale of the two mortgaged properties.⁵⁴

As to DBP's claim for interest by reason of NPC's delay in the payment of the purchase price of the two deeds of sale, We hold that the interest accrues only from the time judicial or extrajudicial demand is made.⁵⁵ However, a thorough review of the records would reveal that petitioner DBP failed to make any extrajudicial demand for the payment of the purchase price of the two deeds of sale. Again, as correctly observed by the appellate court:

Moreover, DBP can neither claim interest by reason of delayed payment, since it failed to present evidence that it made any extrajudicial demand upon NPC for the payment of the principal amount and interest prior to the tender of payment of the balance of P301,350.50 by NPC. **Verily, the DBP Certifications dated 24 February 1987 and 22 June 1999 cannot, in any way, be construed as demand letters as said certifications did not demand that NPC should pay the remaining balance but merely acknowledged that it has not yet received the balance of P310,350.50 (sic). Also, DBP's letters to NPC's Regional Manager dated 4 December 1997 and 25 March 1999 did not demand for payment, rather, said letters merely asked for "clarification" on the transactions regarding the sale of the parcels of land covered by OCT No. P-1439 and TCT No. T-3278.**⁵⁶ [Emphasis supplied.]

Although petitioner DBP judicially demanded payment through its Answer with Counterclaim and Crossclaim, the consequent tender of payment

⁵³ Records, p. 44.

⁵⁴ CA rollo, p. 164.

⁵⁵ CIVIL CODE, Article 1169.

⁵⁶ CA rollo, p. 165.

and consignment on June 28, 2001 by NPC in the total amount of ₱301,350.50 suspends the accrual of interest as to the payment of the purchase price of the first deed of sale. Nonetheless, NPC is liable to pay compensatory interest of twelve percent (12%) per *annum* from the time of its judicial demand, *i.e.* the filing of its Answer with Counterclaim and Crossclaim on July 13, 1999 until the date of its consignment of ₱301,350.50 on June 28, 2001.

However, as to the remaining amount of ₱150,641.03 which is a part of the purchase price of the second deed of sale, the same shall earn 12% legal interest per *annum* to be computed from the time of DBP's judicial demand on July 13, 1999 until June 30, 2013 and six percent (6%) legal interest per *annum* from July 1, 2013 until the judgment becomes final as per the guidelines laid down in the case of *Eastern Shipping Lines, Inc. v. Court of Appeals*⁵⁷ as modified in *Nacar v. Gallery Frames*,⁵⁸ to wit:

Thus, from the foregoing, in the absence of an express stipulation as to the rate of interest that would govern the parties, the rate of legal interest for loans or forbearance of any money, goods or credits and the rate allowed in judgments shall no longer be twelve percent (12%) per *annum* — as reflected in the case of *Eastern Shipping Lines* and Subsection X305.1 of the Manual of Regulations for Banks and Sections 4305Q.1, 4305S.3 and 4303P.1 of the Manual of Regulations for Non-Bank Financial Institutions, before its amendment by BSP-MB Circular No. 799 — but will now be six percent (6%) per *annum* effective July 1, 2013. **It should be noted, nonetheless, that the new rate could only be applied prospectively and not retroactively. Consequently, the twelve percent (12%) per annum legal interest shall apply only until June 30, 2013. Come July 1, 2013 the new rate of six percent (6%) per annum shall be the prevailing rate of interest when applicable.**

xxx

II. With regard particularly to an award of interest in the concept of actual and compensatory damages, the rate of interest, as well as the accrual thereof, is imposed, as follows:

1. When the obligation is breached, and it consists in the payment of a sum of money, *i.e.*, a loan or forbearance of money, the interest due should be that which may have been stipulated in writing. Furthermore, the interest due shall itself earn legal interest from the time it is judicially demanded. **In the absence of stipulation, the rate of interest shall be 6% per annum to be computed from default, *i.e.*, from judicial or extrajudicial demand under and subject to the provisions of Article 1169 of the Civil Code.**

x x x x

3. **When the judgment of the court awarding a sum of money becomes final and executory, the rate of legal interest, whether the case falls under paragraph 1 or paragraph 2, above, shall be**

⁵⁷ 304 Phil. 236 (1994).

⁵⁸ 716 Phil. 267 (2013).

6% per annum from such finality until its satisfaction, this interim period being deemed to be by then an equivalent to a forbearance of credit.⁵⁹ [Emphasis and underscoring supplied.]

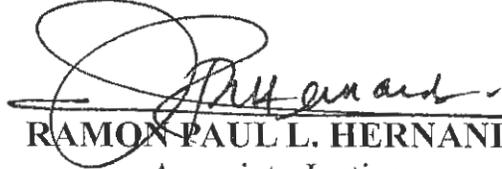
Thus, NPC shall be liable to pay DBP: (a) compensatory interest of twelve percent (12%) per *annum* on ₱301,350.50 from the time of DBP's judicial demand on July 13, 1999 until the date of NPC's consignment of ₱301,350.50 on June 28, 2001; (b) compensatory interest of twelve percent (12%) per *annum* on ₱150,641.03 from the time of DBP's judicial demand on July 13, 1999 until June 30, 2013 and six percent (6%) interest per *annum* from July 1, 2013 until the judgment becomes final; (c) six percent (6%) interest per *annum* on the total judgment award including interest from the time of finality of this Decision until its full satisfaction.

WHEREFORE, the instant petition is hereby **PARTLY GRANTED**. The assailed Decision dated December 2, 2010 of the Court of Appeals in CA-GR. CV No. 78619 is hereby **AFFIRMED** with **MODIFICATION** as to the monetary award and interest claim. Respondent National Power Corporation is hereby ordered to pay petitioner Development Bank of the Philippines the following:

- (a) ₱301,350.50 out of the proceeds of the first deed of sale in the fulfillment of the Spouses Danico's obligation in the total amount of ₱393,353.97 as per Statement of Account as of December 31, 1985;
- (b) ₱150,641.03 out of the proceeds of the second deed of sale in the fulfillment of the Spouses Danico's obligation in the total amount of ₱509,320.82 as per Statement of Account as of April 30, 1985;
- (c) twelve percent (12%) legal interest per *annum* on ₱301,350.50 from the time of Development Bank of the Philippines' judicial demand on July 13, 1999 until the date of National Power Corporation's consignment of ₱301,350.50 on June 28, 2001;
- (d) twelve percent (12%) legal interest per *annum* on ₱150,641.03 to be computed from the time of Development Bank of the Philippines' judicial demand on July 13, 1999 until June 30, 2013, and six percent (6%) legal interest per *annum* from July 1, 2013 until the finality of this judgment; and
- (e) six percent (6%) legal interest rate per *annum* on the total judgment award including interest from the time of finality of this Decision until its satisfaction.

⁵⁹ Id. at 281-283.

SO ORDERED.


RAMON PAUL L. HERNANDO
Associate Justice

WE CONCUR:


ESTELA M. PERLAS-BERNABE
Senior Associate Justice
Chairperson


HENRI JEAN PAUL B. INTING
Associate Justice

On official leave
EDGARDO L. DELOS SANTOS
Associate Justice

On leave
PRISCILLA J. BALTAZAR-PADILLA
Associate Justice

ATTESTATION

I attest that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.


ESTELA M. PERLAS-BERNABE
Senior Associate Justice
Chairperson

CERTIFICATION

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


DIOSDADO M. PERALTA
Chief Justice