



Republic of the Philippines
Supreme Court
Manila

FIRST DIVISION

SECURITY
CORPORATION,

BANK

G.R. No. 236572

Petitioner,

Present:

- versus -

PERALTA, C.J., Chairperson,
CAGUIOA,
CARANDANG,
ZALAMEDA, and
GAERLAN, JJ.

SPOUSES JOSE V. MARTEL and
OLGA S. MARTEL,

Promulgated:

Respondents.

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DECISION

PERALTA, C.J.:

Assailed in the present petition for review on *certiorari* under Rule 45 of the Rules of Court are the September 28, 2016 Decision¹ and January 8, 2018 Resolution² of the Court of Appeals (CA) in CA-G.R. CV No. 104629. The questioned Decision reversed and set aside the Order³, dated December 22, 2014, of the Regional Trial Court (RTC) of Makati City, Branch 134, in Civil Case No. 03-1316, and reinstated the same trial court's Decision⁴ dated August 5, 2014 in a case filed by herein respondent spouses against herein petitioner for nullification of foreclosure proceedings and promissory notes, as well as damages. The challenged CA Resolution denied herein petitioner's Motion for Reconsideration.

¹ Penned by Associate Justice Jose C. Reyes, Jr. (retired member of this Court), with Associate Justices Stephen C. Cruz and Ramon Paul L. Hernando (now a member of this Court) concurring; Annex "A" to Petition, *rollo*, pp. 53-69.

² Issued by a Division of Five and penned by Associate Justice Jose C. Reyes, Jr., with Associate Justices Ramon M. Bato, Jr. and Manuel M. Barrios concurring and Associate Justices Stephen C. Cruz and Ramon Paul L. Hernando registering their separate Dissenting Opinions; Annex "B" to Petition, *id.* at 70-87.

³ Penned by Presiding Judge Perpetua Atal-Paño; Annex "Z" to Petition, *id.* at 235-244.

⁴ Penned by Presiding Judge Perpetua Atal-Paño; Annex "W" to Petition, *id.* at 190-208.

The pertinent factual and procedural antecedents of the case are as follows:

Herein petitioner bank and respondent spouses entered into a credit agreement. Pursuant to such agreement, on August 26, 1994, respondent spouses executed a Real Estate Mortgage (*REM*) contract in petitioner's favor as security for a loan accommodation, in the amount of ₱10,000,000.00, which petitioner extended to respondent spouses. The *REM* was constituted over respondents' residential house and lot located at No. 8, Farol St., Urdaneta Village, Makati City, covered by Transfer Certificate of Title (*TCT*) No. (288267) 146489, which was originally registered with the Register of Deeds for the Province of Rizal. Following the original agreement, on various dates starting from April 12, 1995 until March 22, 1999, respondent spouses executed five (5) *REM* contracts in petitioner's favor which were constituted over the same property to secure several loans obtained by the former from the latter.⁵ The aggregate principal loan obligation eventually amounted to ₱26,700,000.00. Thereafter, from September 14, 2001 until October 5, 2001, respondent spouses executed four (4) Promissory Notes to cover ₱25,000,000.00 of their obligation.⁶ Subsequently, respondent spouses defaulted in the payment of their loan obligations prompting petitioner to extra-judicially foreclose the subject *REMs*. Based on petitioner's demand letter, dated May 15, 2002, respondent spouses' obligation as of May 8, 2002 amounted to ₱33,009,745.43, "exclusive of the stipulated attorney's fees and other charges."⁷

In a Notice of Sheriff's Sale⁸ dated July 31, 2002, which was issued by the Office of the Clerk of Court and *Ex-Officio* Sheriff of the RTC of Makati City, the public auction of the subject mortgaged property was scheduled to be held at the New City Hall of Makati, at 10 o'clock in the morning of September 6, 2002. The Notice was duly posted and published. In the said Notice, the mortgage debt amounted to P34,645,909.44 as of June 30, 2002.

On September 5, 2002, respondent spouses wrote a letter addressed to the Clerk of Court and *Ex-Officio* Sheriff of the RTC of Makati City asking

⁵ See Annexes "D" (*REM*, dated April 12, 1995, as security for a loan obligation of ₱3,000,000.00), "E" (*REM*, dated March 14, 1996, as security for a loan obligation of ₱7,000,000.00), "F" (*REM*, dated October 3, 1996, as security for a loan obligation of ₱5,000,000.00), "G" (Addendum to *REM*, acknowledged on July 22, 1998, to include respondents' family home as security for their loan obligation), and "H" (*REM*, dated March 22, 1999, as security for a loan obligation of ₱1,700,000.00) to Petition, *id.* at 98-115.

⁶ See Annexes "I" (Promissory Note, dated September 14, 2001, in the amount of ₱7,250,000.00), "J" (Promissory Note, dated September 21, 2001, in the amount of ₱7,200,000.00), "K" (Promissory Note, dated September 28, 2001, in the amount of ₱5,550,000.00), and "L" (Promissory Note, dated October 5, 2001, in the amount of ₱5,000,000.00) to Petition, *id.* at 116-129.

⁷ See Annex "M" to Petition, *id.* at 130.

⁸ Annex "N" to Petition, *id.* at 131.



that the scheduled auction sale be moved from September 6, 2002 to September 23, 2002.⁹ The pertinent text of the letter-request reads as follows:

May we have the honor to request for a postponement of the auction sale of TCT No. (288267) 146489 scheduled on September 06, 2002 to September 23, 2002 **without the need of republication.**¹⁰ (emphasis supplied)

The request was granted.

Again, on September 23, 2002, respondent spouses wrote a similarly-worded letter to the Clerk of Court and *Ex-Officio* Sheriff of the RTC of Makati City, asking for the postponement of the auction sale of the subject property and requesting that it be held, instead, on October 8, 2002, “without the need of republication.”¹¹ The request was, again, granted.

For the third time, on October 8, 2002, respondent spouses wrote another letter to the Clerk of Court and *Ex-Officio* Sheriff of the RTC of Makati City asking for the re-scheduling of the auction sale to October 23, 2002, again “without the need of republication.”¹² The request was, likewise, granted.

Thus, on October 23, 2002, the extra-judicial foreclosure sale was conducted by the Clerk of Court and *Ex-Officio* Sheriff of the RTC of Makati City, as scheduled, and the subject property was sold to petitioner, as the highest bidder, in the amount of ₱25,303,072.21. A Certificate of Sale¹³ dated November 15, 2002 was subsequently issued in the name of petitioner and, on November 18, 2002, the sale was annotated in the memorandum of encumbrances of the TCT under which the property was registered.

On November 11, 2003, respondent spouses filed a Complaint against the petitioner, the Register of Deeds of Makati City, and the Clerk of Court and *Ex-Officio* Sheriff of the Makati City RTC, seeking the nullification of the foreclosure sale which was held on October 23, 2002 as well as the Promissory Notes it executed, and for damages, attorney’s fees and cost of suit. Respondent spouses cited the grounds of prematurity of the foreclosure sale, bad faith on the part of the defendants, exorbitant interest rates, irregularity in the signing of the promissory notes, and failure to comply with the requirements of the law on posting and publication of the auction sale. In the alternative, respondent spouses prayed that the RTC determine the proper amount of redemption money to be paid within a reasonable time.

⁹ Annex “O” to Petition, *id.* at 132.

¹⁰ *Id.*

¹¹ Annex “P” to Petition, *rollo*, p. 133.

¹² Annex “Q” to Petition, *id.* at 134.

¹³ Annex “R” to Petition, *id.* at 135.

On November 19, 2003, petitioner executed an Affidavit of Consolidation¹⁴ for the purpose of consolidating its title over the disputed property, on the ground that respondent spouses failed to redeem the auctioned property on time. Subsequently, TCT No. 146489, in the name of respondent spouses, was cancelled and a new title (TCT No. 219694) was issued in the name of petitioner. On application, petitioner was subsequently placed in possession of the subject property.

On April 14, 2004, petitioner filed its Answer to the above-mentioned complaint of respondent spouses, contending, among others, that: posting and publication requirements with respect to the foreclosure sale were duly complied with; respondent spouses were the ones who requested for the postponement of the auction sales; they never requested for reconciliation of the statement of their accounts; and, they knowingly signed and executed the disputed Promissory Notes. Thereafter, trial ensued.

On August 5, 2014, the RTC rendered its Decision, disposing as follows:

WHEREFORE, premises considered, judgment is hereby rendered and:

1. The Clerk of Court of the Regional Trial Court of Makati City is hereby ordered to reassess, determine and collect additional fees that should be paid by plaintiffs within fifteen (15) days, provided the applicable prescriptive or reglementary period has not yet expired, and the plaintiffs are given the same period to pay the same;
2. In the event that the plaintiffs wish to pay their outstanding obligation to defendant, the former is ordered to pay the latter Thirty[-]Four Million Six Hundred Forty[-]Five Thousand Nine Hundred Nine Pesos and Forty[-]Four Centavos (Php34,645,909.44), at 12% interest per annum from 31 July 2002, until fully paid;
3. [D]eclaring as null and void
 - a. the auction sale by the City Sheriff of Makati City on 23 October 2002 over the property located at No. 8 Farol St., Urdaneta Village, Makati City;
 - b. the Certificate of Sale dated 23 October 2002 (Exhibit "G") issued by the Clerk of Court approved by then Executive Judge Leticia P. Morales on 15 November 2002 regarding the foreclosure in the case Security Bank vs. Spouses Jose and Olga Martel, docketed as S-02-086;

¹⁴ Annex "S" to Petition, *id.* at 136.



- c. the Affidavit of Consolidation [dated] 19 November 2003 (Exhibit "1"); and
 - d. Transfer Certificate of Title No. 219694 in the name of Security Bank Corporation;
4. Ordering the Register of Deeds of Makati City to cancel TCT No. 219694 and to reinstate TCT No. 288267 in the name of Jose Martel married to Olga Severino; and
 5. Ordering the City Sheriff of Makati City to conduct a new auction sale strictly complying with the mandatory requirements as required by Act No. 3135, as amended by Act No. 4118.

SO ORDERED.¹⁵

Ruling on the main issue of whether or not respondent spouses are estopped from questioning the validity of the auction sale of the subject property, considering that they were the ones who requested for the postponement of the said sale without need of publication of the re-scheduled date of auction sale, the RTC noted that the alleged letter-requests of respondent spouses were not formally offered in evidence. As such, the RTC ruled that petitioner's failure to make a formal offer of these pieces of evidence is fatal to its cause as the same may not be considered by the trial court.

Both petitioner and respondent spouses sought reconsideration of the above Decision.

On December 22, 2014, the RTC issued its assailed Order, the dispositive portion of which reads as follows:

WHEREFORE, premises considered, the Decision dated 5 August 2014 is hereby **REVERSED and SET ASIDE**. The Complaint for Nullification of the Foreclosure Proceedings, Promissory Notes, and Damages filed by plaintiff-Spouses Jose V. Martel and Olga Severino Martel against defendants Security Bank Corporation, the Register of Deeds of Makati City, and the Clerk of Court and Ex-Officio Sheriff of the Regional Trial Court, Makati City is hereby **DISMISSED**.

SO ORDERED.¹⁶

This time, the RTC held that despite the failure of petitioner to formally offer in evidence respondent-spouses' letter-requests, which asked for the postponement of the auction sale without need of publication of the re-scheduled date of auction, the RTC noted that respondent spouses,

¹⁵ *Rollo*, pp. 207-208.

¹⁶ *Id.* at 243.

nonetheless, admitted the existence of these letter-requests in their Motion for Summary Judgment filed with the RTC. Also, one of their witnesses made the same admission during her cross-examination. Moreover, the said letter-requests were attached to their Supplemental Memorandum which they submitted to the trial court. On these bases, the RTC concluded that the above admissions made by respondent spouses in their pleadings and in the course of trial constitute judicial admissions which, in the absence of any contradiction, are legally binding upon them. As such, respondent spouses are estopped from questioning the validity of the subject auction sale.

On appeal by herein respondent spouses, the CA reversed the December 22, 2014 Order of the RTC and reinstated the trial court's August 5, 2014 Decision.

The CA ruled that the extrajudicial foreclosure sale of the subject property held on October 23, 2002 is void for failure of petitioner to comply with the required publication of the notice of the re-scheduled date of auction sale.

Herein petitioner filed a Motion for Reconsideration, but the CA denied it in its January 8, 2018 Resolution.

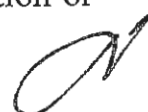
Hence, the present petition for review on *certiorari*, which the Court finds meritorious.

At the outset, petitioner contends that respondent spouses' complaint not only seeks the nullification of the questioned foreclosure proceedings but also the recovery of title or possession of the subject property. As such, petitioner argues that the bases of the docket fees that should have been imposed should also have included the estimated or assessed value of the property which was the subject of the foreclosure proceedings. Petitioner claims that the amount of docket fees paid by respondent spouses were insufficient, and that they subsequently failed to pay the correct docket fees within the period allowed by law. Thus, petitioner concludes that the RTC "did not validly acquire jurisdiction over respondent spouses' complaint for non-payment of [the] correct docket fee"¹⁷ within the prescriptive period.

The Court is not persuaded.

The rule in this jurisdiction is that when an action is filed in court, the complaint must be accompanied by the payment of the requisite docket and filing fees. Section 1, Rule 141 of the Rules of Court expressly requires that, upon the filing of the pleading or other application that initiates an action or

¹⁷ *Id.* at 30.



proceeding, the prescribed fees for such action or proceeding shall be paid in full. If the correct fees are not paid at the time of filing the action, however, the court may still allow payment of any deficiency within a reasonable time after the action was filed, but in no case beyond the lapse of its prescriptive period.¹⁸ The “prescriptive period” referred to pertains to the period in which a specific action must be filed as provided in the applicable laws, particularly Chapter 3, Title V, Book III, of the Civil Code, the principal law on prescription of actions.¹⁹

In that regard, the Court agrees with the trial court that what has been filed by respondent spouses is a real action, as they not only seek the nullification of the foreclosure proceedings but also seek recovery of title to and possession of the subject property. Indeed, a real action is one in which the plaintiff seeks recovery of real property; or as indicated under Section 1, Rule 4 of the Rules of Court, a real action is an action affecting title to, possession of or interest in real property. Under Article 1141 of the Civil Code, real actions over immovables prescribe after thirty (30) years.

In the present case, the foreclosure proceedings was held on October 23, 2002. It is on this date that respondent spouses’ cause of action accrued. Applying Article 1141 of the Civil Code, an action to assail said proceedings, such as the one filed by the respondent spouses, will thus prescribe 30 years from October 23, 2002.

Hence, when the trial court directed the respondent spouses to pay deficiency docket fees *via* its decision dated August 5, 2014 — it is clear that the right of action of the respondent spouses to institute their complaint at that time has not yet prescribed. Accordingly, the directive may be sustained as a valid exercise by the trial court of its discretion to allow belated payment of the correct amount of docket fees.

It should be clarified, however, that while the respondent spouses may be allowed to belatedly pay the balance of their docket fees, such payment has to be made within a *reasonable time* before the lapse of the prescriptive period or, as applied in this case, within 15 days from the trial court’s decision — the period specified in the said decision. Payment by the respondent spouses of their balance within such time frame, and before prescription sets in, suffices to cure the defect caused by their incomplete payment of docket fees.

Be that as it may, the Court agrees with petitioner that respondent spouses are estopped from questioning the validity of the subject foreclosure proceedings precisely because they, themselves, were the ones who

¹⁸ *Philippine First Insurance Co., Inc. v. Pyramid Logistics and Trucking Corp.*, 579 Phil. 679-693 (2008).

¹⁹ *Fedman Development Corporation v. Agacoili*, 672 Phil. 20, 29 (2011).

“requested for several postponements of the auction sale without need of republication.”²⁰

The doctrine of estoppel is based upon the grounds of public policy, fair dealing, good faith and justice, and its purpose is to forbid one to speak against its own act, representations, or commitments to the injury of one to whom they were directed and who reasonably relied thereon. The doctrine of estoppel springs from equitable principles and the equities in the case. It is designed to aid the law in the administration of justice where without its aid injustice might result. It has been applied by this Court wherever and whenever the special circumstances of a case demands,²¹ and the Court finds it applicable in the instant case.

Indeed, parties, like herein respondent spouses, who do not come to court with clean hands cannot be allowed to profit from their own wrongdoing.²² The action (or inaction) of the party seeking equity must be "free from fault, and he must have done nothing to lull his adversary into repose, thereby obstructing and preventing vigilance on the part of the latter."²³

Moreover, it is evident from respondent spouses' actuations that they are in bad faith. After their request for the re-scheduling of the public auction, without republication, was granted, they subsequently went to court to invalidate or nullify the said public auction. The Court arrives at no other conclusion than that this request was made as an underhanded tactic purposely crafted in order to deceive both petitioner and the Clerk of Court into acceding to their request and, thus, laying the ground for the subsequent filing of an action to nullify the proceedings in the conduct of the said public auction, in case respondent spouses failed to acquire the subject property in the said auction. What makes their act more detestable is the fact that they made the same request three times and that all these requests were granted in order to accommodate them. This dishonest and scheming act on the part of respondent spouses is clearly a violation of Article 19 of the Civil Code, which states that “[e]very person must, in the exercise of his rights and in the performance of his duties, act with justice, give everyone his due, and observe honesty and good faith.”

The Court agrees with the Dissenting Opinion of then CA Associate Justice Ramon Paul I. Hernando²⁴ that, if any, it is the public, as well as respondent spouses' creditors and heirs, who have a cause of action to seek nullification of the subject auction sale that was conducted without the

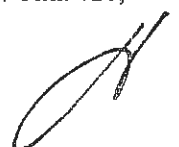
²⁰ *Rollo*, p. 34.

²¹ *Philippine National Bank v. Intermediate Appellate Court (First Civil Cases Div.)*, 267 Phil. 720, 728 (1990).

²² *Department of Public Works and Highways v. Quiwa, et al.*, 681 Phil. 485, 489 (2012).

²³ *Id.*

²⁴ Now a member of this Court; see *rollo*, p. 87.




requisite republication. Respondent spouses, nonetheless, are estopped from availing of the right to question the sale as they did not come to court with clean hands.

Based on the foregoing, the Court no longer finds it necessary to discuss the other grounds raised by petitioner.

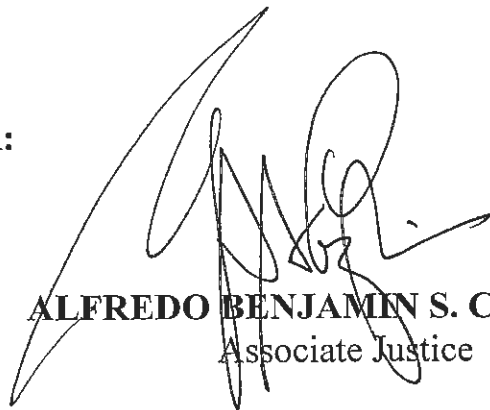
WHEREFORE, the petition is **GRANTED**. The September 28, 2016 Decision and January 8, 2018 Resolution of the Court of Appeals in CA-G.R. CV No. 104629 are **REVERSED** and **SET ASIDE**. The Order of the Regional Trial Court of Makati City, Branch 134, dated December 22, 2014, dismissing respondent spouses' Complaint, is **REINSTATED**.

SO ORDERED.



DIOSDADO M. PERALTA
Chief Justice

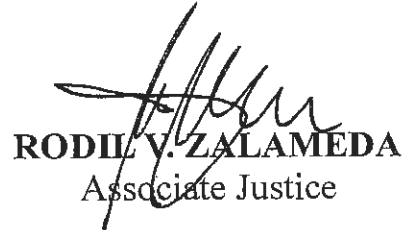
WE CONCUR:



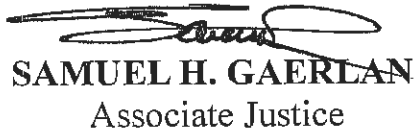
ALFREDO BENJAMIN S. CAGUIOA
Associate Justice



ROSMARI D. CARANDANG
Associate Justice



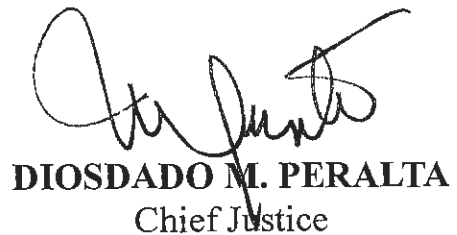
RODIL V. ZALAMEDA
Associate Justice



SAMUEL H. GAERLAN
Associate Justice

CERTIFICATION

Pursuant to Section 13, Article VIII of the Constitution, 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