



Republic of the Philippines
Supreme Court
Manila

SECOND DIVISION

WHITE MARKETING
DEVELOPMENT CORPORATION,

Petitioner,

G.R. No. 222407

Present:

- versus -

CARPIO, J., Chairperson,
BRION,
DEL CASTILLO,
MENDOZA, and
LEONEN, JJ.

GRANDWOOD FURNITURE
& WOODWORK, INC.,

Respondent.

Promulgated:

23 NOV 2016

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M. Cabalag

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DECISION

MENDOZA, J.:

This Petition for Review on *Certiorari* seeks to reverse and set aside the June 22, 2015 Decision¹ and the December 28, 2015 Resolution² of the Court of Appeals (CA) in CA-G.R. CV No. 103488, which reversed and set aside the July 21, 2014 Decision³ of the Regional Trial Court, Branch 166, Pasig City (RTC), in a case involving the issue on the applicable redemption period.

On May 26, 1995, respondent Grandwood Furniture & Woodwork, Inc. (*Grandwood*) obtained a loan in the amount of ₱40,000,000.00 from Metropolitan Bank and Trust Company (*Metrobank*). The loan was secured by a real estate mortgage over a parcel of land covered by Transfer Certificate of Title (TCT) No. 63678. Metrobank eventually sold its rights and interests over the loan and mortgage contract to Asia Recovery Corporation (ARC). The latter then assigned the same rights and interests to Cameron Granville 3 Asset Management, Inc. (CGAM3).⁴

¹ Penned by Associate Justice Franchito N. Diamante with Associate Justice Japar B. Dimaampao and Associate Justice Carmelita Salandanan Manahan, concurring; *rollo*, pp. 392-404.

² *Id.* at 420-422.

³ Penned by Presiding Judge Rowena de Juan-Quinagoran; *id.* at 207-215.

⁴ *Id.* at 393.

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On July 24, 2013, after Grandwood failed to pay the loan which already amounted to ₱68,941,239.46, CGAM3 initiated extrajudicial foreclosure proceedings of the real estate mortgage. During the September 17, 2013 Auction Sale, petitioner White Marketing Development Corporation (*White Marketing*) was declared the highest bidder and a certificate of sale was issued in its favor.⁵

On September 30, 2013, the certificate of sale was registered and annotated on TCT No. 63678. On November 21, 2013, White Marketing received a letter from the sheriff informing it that Grandwood intended to redeem the foreclosed property. In response, White Marketing sent a letter informing the sheriff that Grandwood no longer had the right to redeem.⁶

Insisting on its right to redeem the property, Grandwood sent a letter, dated December 3, 2013, to the Office of the Clerk of Court of the RTC (*OCC-RTC*) insisting that it was the latter's ministerial duty to recognize its right of redemption, to accept the tender of payment and to issue a certificate of redemption. The OCC-RTC, however, refused to accept the tender of payment on the ground that it was confronted with the conflicting applicable laws on the matter of the redemption period. Thus, Grandwood was prompted to file its Petition for Consignation, Mandamus and Damages before the RTC. It reiterated its right to redeem the property subject of the foreclosure sale under Act No. 3135 in relation to Republic Act (*R.A.*) No. 337 and Sections 27 and 28 of Rule 39 of the Rules of Court.⁷

The RTC Decision

In its July 21, 2014 Decision, the RTC dismissed the petition for mandamus. The trial court ruled that the redemption period applicable in the mortgage between Metrobank and Grandwood was Section 47⁸ of R.A. No.

⁵ Id. at 5.

⁶ Id. at 5-6.

⁷ Id. at 6-7.

⁸ Sec. 47. ***Foreclosure of Real Estate Mortgage.*** – In the event of foreclosure, whether judicially or extrajudicially, of any mortgage on real estate which is security for any loan or other credit accommodation granted, the mortgagor or debtor whose real property has been sold for the full or partial payment of his obligation shall have the right within one year after the sale of the real estate, to redeem the property by paying the amount due under the mortgage deed, with interest thereon at rate specified in the mortgage, and all the costs and expenses incurred by the bank or institution from the sale and custody of said property less the income derived therefrom. However, the purchases at the auction sale concerned whether in a judicial or extra-judicial foreclosure shall have the right to enter upon and take possession of such property immediately after the date of the confirmation of the auction sale and administer the same in accordance with law. Any petition in court to enjoin or restrain the conduct of foreclosure proceedings instituted pursuant to this provision shall be given due course only upon the filing by the petitioner of a bond in an amount fixed by the court conditioned that he will pay all the damages which the bank may suffer by the enjoining or the restraint of the foreclosure proceeding.

Notwithstanding Act 3135, juridical persons whose property is being sold pursuant to an extrajudicial foreclosure, shall have the right to redeem the property in accordance with this provision until, but not after, the registration of the certificate of foreclosure sale with the applicable Register of Deeds which in no case shall be more than three (3) months after foreclosure, whichever is earlier. Owners of property that has been sold in a foreclosure sale prior to the effectivity of this Act shall retain their redemption rights until their expiration. [Emphasis supplied]

8791 or the “*General Banking Law of 2000*.” The RTC wrote that by virtue of the said law, Grandwood should have redeemed the property before the registration of the certificate of sale on September 30, 2013, which was an earlier date than December 17, 2013, or three months after the foreclosure on September 17, 2013. It further stressed that White Marketing acquired all the rights of Metrobank in the mortgage contract, which was eventually assigned to CGAM3. The dispositive portion of the RTC decision reads:

WHEREFORE, premises considered, the petition for consignment and mandamus is hereby DISMISSED, for lack of merit. Petitioner’s claim is DENIED, for lack of legal basis.

Private Respondent’s counterclaims are likewise DENIED, for lack of sufficient basis.

No pronouncement as to costs.

SO ORDERED.⁹

Aggrieved, Grandwood moved for reconsideration but its motion was denied by the RTC in the Order,¹⁰ dated September 11, 2014. Hence, it appealed before the CA.

The CA Decision

In its June 22, 2015 Decision, the CA *reversed* the RTC ruling and remanded the case to the latter for the determination of the amount of the redemption price. It ordered the OCC-RTC to accept the consigned amount and to issue the corresponding certificate of redemption in Grandwood’s favor. It emphasized that Section 47 of R.A. No. 8791 applied only in cases of foreclosure of real estate by a mortgagee bank in order to provide sufficient legal remedies to banks in case of unpaid debts or loans. As White Marketing was not privy to the contract of loan and the accessory contract of mortgage, it considered the limitation on the right of redemption on juridical persons as inapplicable. It was of the view that in case of doubt on the issue of the right of redemption, it should be resolved in favor of the mortgagor. Thus, the CA disposed:

WHEREFORE, premises considered, the instant appeal is GRANTED. Accordingly, the Decision dated July 21, 2014 of the Regional Trial Court of Pasig City, Branch 166, in SCA No. 3915, is hereby REVERSED AND SET ASIDE and a new one is rendered by allowing petitioner-appellant Grandwood Furniture & Woodwork, Inc. to consign to the court *a quo* the amount corresponding to the redemption of its foreclosed property covered by TCT No. 63678 of

⁹ *Rollo*, p. 215.

¹⁰ *Id.* at 224.

the Register of Deeds of Pasig. Furthermore, the Court hereby directs the following:

- (a) remand this case to the court *a quo* and the latter is ordered to reinstate SCA Case No. 3915 into its docket;
- (b) for the court *a quo* to determine the entire amount of redemption price together with interest and other legal fees;
- (c) for the Office of the Clerk of Court and Ex-Officio Sheriff of RTC Pasig City to forthwith accept the consigned amounts and issue the corresponding Certificate of Redemption in favor petitioner-appellant.

SO ORDERED.¹¹

White Marketing moved for reconsideration but the CA denied its motion in the assailed December 28, 2015 Resolution.

Hence, this petition.

SOLE ISSUE

WHETHER OR NOT THE COURT OF APPEALS ERRED IN REVERSING THE DECISION OF THE COURT A QUO WHEN IT DECLARED THAT SEC. 47 of R.A. NO. 8791 OR THE GENERAL BANKING LAW IS NOT APPLICABLE IN THE CASE AT BAR.¹²

Petitioner White Marketing insisted that Grandwood's right of redemption had lapsed because, under the mortgage contract, the parties agreed that the same would be governed by R.A. No. 8791. It argued that because the parties voluntarily stipulated on the governing law, the same was binding on them. White Marketing asserted that when Metrobank assigned its rights, its assignees acquired whatever rights the former had under the Real Estate Mortgage.

It reiterated that Section 47 of R.A. No. 8791 was the applicable law with regard to the period of redemption. For said reason, Grandwood should have redeemed the foreclosed property before the registration of the certificate of sale on September 30, 2013.

In its March 14, 2016 Resolution,¹³ the Court resolved to deny the petition. White Marketing moved for reconsideration. In its June 15, 2016

¹¹ Id. at 403.

¹² Id. at 8.

¹³ Id. at 425.

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Resolution,¹⁴ the Court granted the motion, reinstated the petition, and required respondent Grandwood to file its comment.

In its Comment,¹⁵ dated July 22, 2016, Grandwood argued that the provisions of the real estate mortgage were *pro forma* as the original mortgagee, Metrobank, was a banking institution; and so, the contract would necessarily contain a provision indicating that the mortgagor would be bound by R.A. No. 8791.

Grandwood, however, explained that White Marketing could not enjoy the provision of R.A. No. 8791 on the redemption period because it was not a banking institution. It asserted that its exercise of redemption rights was not against Metrobank in accordance with the real estate mortgage, but against White Marketing as the highest bidder in the foreclosure sale.

Grandwood further reiterated that pursuant to the spirit and intent of R.A. No. 8791, the shorter redemption period applied in favor of banking institutions only. In its view, R.A. No. 8791 would apply only when the mortgagee bank itself would foreclose the property and not when the same had already assigned or conveyed its mortgage rights for a consideration.

In its Reply,¹⁶ dated August 10, 2016, White Marketing countered that Grandwood was bound by the provisions of the real estate mortgage. It added that the fact that Metrobank assigned its rights to CGAM3 neither modified the terms of the mortgage contract nor excluded Grandwood from the provisions thereof. Thus, it insisted that Grandwood was bound by the redemption period under R.A. No. 8791 and should suffer the consequences for its failure to redeem the mortgaged property within the allotted time.

The Court's Ruling

The Court finds merit in the petition.

In the case at bench, it is undisputed that Metrobank assigned its rights in the mortgage to ARC, which later assigned the same to CGAM3. After Grandwood defaulted in its loan obligation, CGAM3 foreclosed the mortgaged property. As earlier stated, White Marketing emerged as the winning bidder in the foreclosure sale. Thus, White Marketing, stepped into the shoes of Metrobank.

¹⁴ Id. at 440.

¹⁵ Id. at 441-454.

¹⁶ Id. at 455-461.

In *Fort Bonifacio v. Fong*,¹⁷ the Court explained the effects of assignment of credit, to wit:

The reason that a contracting party's assignees, although seemingly a third party to the transaction, remain bound by the original party's transaction under the relativity principle further lies in the concept of subrogation, which inheres in assignment.

Case law states that when a person assigns his credit to another person, the latter is deemed subrogated to the rights as well as to the obligations of the former. **By virtue of the Deed of Assignment, the assignee is deemed subrogated to the rights and obligations of the assignor and is bound by exactly the same conditions as those which bound the assignor.** Accordingly, an assignee cannot acquire greater rights than those pertaining to the assignor. The general rule is that an assignee of a non-negotiable chose in action acquires no greater right than what was possessed by his assignor and simply stands into the shoes of the latter. [Emphasis and underlining supplied]

In an assignment of credit, the assignee is subrogated to the rights of the original creditor, such that he acquires the power to enforce it, to the same extent as the assignor could have enforced it against the debtor.¹⁸ Through the assignment of credit, the new creditor is **entitled to the rights and remedies available to the previous creditor, and includes accessory rights such as mortgage or pledge.**¹⁹ Consequently, ARC acquired all the rights, benefits and obligations of Metrobank under its mortgage contract with Grandwood. The same could be said for subsequent assignees or successors-in-interest after ARC like White Marketing.

The mortgage between Grandwood and Metrobank, as the original mortgagee, was subject to the provisions of Section 47 of R.A. No. 8791. Section 47 provides that when a property of a juridical person is sold pursuant to an extrajudicial foreclosure, it “shall have the right to redeem the property in accordance with this provision until, but not after, the registration of the Certificate of foreclosure sale with the applicable Register of Deeds which in no case shall be more than three (3) months after foreclosure, whichever is earlier.”

Applied in the present case, Grandwood had three months from the foreclosure or before the certificate of foreclosure sale was registered to redeem the foreclosed property. This holds true even when Metrobank

¹⁷ G.R. No. 209370, March 25, 2015, 754 SCRA 544.

¹⁸ *Ledonio v. Capitol Development Corporation*, 553 Phil. 344 (2007).

¹⁹ *Metropolitan Bank & Trust Company v. G & P Builders, Incorporated*, G.R. No. 189509, November 23, 2015.

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ceased to be the mortgagee in view of its assignment to ARC of its credit, because the latter acquired all the rights of the former under the mortgage contract—including the shorter redemption period. The shorter redemption period should also redound to the benefit of White Marketing as the highest bidder in the foreclosure sale as it stepped into the shoes of the assignee-mortgagee.

Measured by the foregoing parameters, the Court finds that Grandwood's redemption was made out of time as it was done after the certificate of sale was registered on September 30, 2013. Pursuant to Section 47 of R.A. No. 8791, it only had three (3) months from foreclosure or before the registration of the certificate of foreclosure sale, whichever came first, to redeem the property sole in the extrajudicial sale.

Such interpretation is in harmony with the avowed purpose of R.A. No. 8791 in providing for a shorter redemption period for juridical persons. In *Goldenway Merchandising Corporation v. Equitable PCI Bank*,²⁰ the Court explained that the shortened period under Section 47 of R.A. No. 8791 served as additional security for banks to maintain their solvency and liquidity, to wit:

The difference in the treatment of juridical persons and natural persons was based on the nature of the properties foreclosed — whether these are used as residence, for which the more liberal one-year redemption period is retained, or used for industrial or commercial purposes, in which case **a shorter term is deemed necessary to reduce the period of uncertainty in the ownership of property and enable mortgagee-banks to dispose sooner of these acquired assets. It must be underscored that the General Banking Law of 2000, crafted in the aftermath of the 1997 Southeast Asian financial crisis, sought to reform the General Banking Act of 1949 by fashioning a legal framework for maintaining a safe and sound banking system. In this context, the amendment introduced by Section 47 embodied one of such safe and sound practices aimed at ensuring the solvency and liquidity of our banks. It cannot therefore be disputed that the said provision amending the redemption period in Act 3135 was based on a reasonable classification and germane to the purpose of the law. [Emphasis supplied]**

To adopt Grandwood's position that Section 47 of R.A. No. 8791 no longer applies would defeat its very purpose to provide additional security to mortgagee-banks. The shorter redemption period is an incentive which mortgagee-banks may use to encourage prospective assignees to accept the assignment of credit for a consideration. If the redemption period under R.A. No. 8791 would be extended upon the assignment by the bank of its rights

²⁰ 706 Phil. 427 (2013).

under a mortgage contract, then it would be tedious for banks to find willing parties to be subrogated in its place. Thus, it would adversely limit the bank's opportunities to quickly dispose of its hard assets, and maintain its solvency and liquidity.

Although it is true that, generally, redemption is liberally construed in favor of the mortgagor, the rule cannot be applied in the present case. In *City of Davao v. The Intestate Estate of Amado S. Dalisay*,²¹ the Court eruditely explained that the liberal construction of the redemption period is not a panacea readily invoked by mortgagors whose right to redeem had been justifiably defeated, *viz*:

The Court need not belabor the existence of this rule in jurisprudence. In a long line of cases, the Court has indeed been copious in its stance to allow the redemption of property where in doing so, the ends of justice are better realized. xxx

Nonetheless, the Court's agreement with the CA decision ends here. The above rulings now beget a more important question for the resolution of this case: Does a simplistic application of the liberal construction of redemption laws provide a just resolution of this case? The Court answers this question in the negative.

While it is a given that redemption by property owners is looked upon with favor, it is equally true that the right to redeem properties remains to be a statutory privilege. Redemption is by force of law, and the purchaser at public auction is bound to accept it. Further, the right to redeem property sold as security for the satisfaction of an unpaid obligation does not exist preternaturally. Neither is it predicated on proprietary right, which, after the sale of the property on execution, leaves the judgment debtor and vests in the purchaser. Instead, it is a bare statutory privilege to be exercised only by the persons named in the statute.

In other words, **a valid redemption of property must appropriately be based on the law which is the very source of this substantive right. It is, therefore, necessary that compliance with the rules set forth by law and jurisprudence should be shown in order to render validity to the exercise of this right.** Hence, when the Court is beckoned to rule on this validity, a hasty resort to elementary rules on construction proves inadequate. Especially so, when there are deeper underpinnings involved, not only as to the right of the owner to take back his property, but equally important, as to the right of the purchaser to acquire the property after deficient compliance with statutory requirements, including the exercise of the right within the period prescribed by law.

²¹ G.R. No. 207791, July 15, 2015.

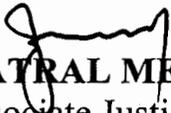
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The Court cannot close its eyes and automatically rule in favor of the redemptioner at all times. The right acquired by the purchaser at an execution sale is inchoate and does not become absolute until after the expiration of the redemption period without the right of redemption having been exercised. "But inchoate though it be, it is, like any other right, entitled to protection and must be respected until extinguished by redemption." **Suffice it to say, the liberal application of redemption laws in favor of the property owner is not an austere solution to a controversy, where there are remarkable factors that lead to a more sound and reasonable interpretation of the law.** Here, the proper focus of the CA should have been the just and fair interpretation of the law, instead of an automatic and constricted view on its liberal application. [Emphases supplied]

To reiterate, the shortened period of redemption provided in Section 47 of R.A. No. 8791 serves as additional security and protection to mortgagee-banks in order for them to maintain a solvent and liquid financial status. The period is not extended by the mere fact that the bank assigned its interest to the mortgage to a non-banking institution because the assignee merely steps into the shoes of the mortgagee bank and acquires all its rights, interests and benefits under the mortgage—including the shortened redemption period. Moreover, to extend the redemption period would prejudice the ability of the banks to quickly dispose of its hard assets to maintain solvency and liquidity.

WHEREFORE, the June 22, 2015 Decision of the Court of Appeals and its December 28, 2015 Resolution, in CA-G.R. CV No. 103488 are **REVERSED** and **SET ASIDE**. The July 21, 2014 Decision of the Regional Trial Court, Branch 166, Pasig City is **REINSTATED**.

SO ORDERED.


JOSE CATRAL MENDOZA
Associate Justice

WE CONCUR:



ANTONIO T. CARPIO
Associate Justice
Chairperson



ARTURO D. BRION
Associate Justice



MARIANO C. DEL CASTILLO
Associate Justice



MARVIC M.V.F. LEONEN
Associate Justice

A T T E S T A T I O N

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.



ANTONIO T. CARPIO
Associate Justice
Chairperson, Second Division

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.



MARIA LOURDES P. A. SERENO
Chief Justice