100 Phil. 135

[G.R. No. L-8683. October 24, 1956]

IN RE: PETITION TO ANNOTATE LIENS CONSTITUTED IN ACTS NOS. 1812 AND 1977. MANILA RAILROAD COMPANY, PETITIONER AND APPELLANT, VS. LUZON STEVEDORING COMPANY, OPPOSITOR AND APPELLEE.

D E C I S I O N

CONCEPCION, J.:

On April 30, 1954, the Manila Railroad Company filed, with the Court of First Instance of Rizal, a petition for the registration in the office of the Register of Deeds in and for the Province of Rizal and the annotation in the records thereof, particularly on Transfer Certificate of Title No. 18598 of said office, of the liens, constituted under Acts Nos. 1812 and 1977, upon Lot No. 3 of Plan No. PSU 54010, G.L.R.O. Record No. 917, situated in the municipality of San Felipe Neri, province of Rizal, and covered by said certificate of title. The Luzon Stevedoring Company, which bought said lot from herein petitioner, on February 2, 1953, objected to said petition, which was granted by an order dated May 25, 1954. However, this order was, on motion for reconsideration of said oppositor, set aside by another order dated August 27, 1954, which, likewise, denied the aforementioned petition. Hence, the present appeal, taken by petitioner herein.

Said order of August 27, 1954, was predicated, mainly, upon the ground that the purchaser, for value, of a registered land acquires the same free from all liens and encumbrances not noted on the corresponding certificate of title, and that herein petitioner is guilty of laches.

In support of the first ground, the order appealed from cites the cases of De Jesus *vs*. City of Manila (29 Phil., 73), Legarda & Prieto *vs*. Saleeby (31 Phil., 590), and De la Cruz *vs*. Fabie (35 Phil., 144). These cases involved, however, contractual liens, not statutory liens, and, accordingly, are not in point. The question raised in the case at bar is one of first impression in the Philippines. The pertinent facts are:

On January 1, 1907, petitioner executed, in favor of the Central Trust Company of New

York, a deed of “First Mortgage”, to guarantee certain bonds issued by the former. Three months later, or, to be exact, on April 1, 1907, petitioner executed a deed of “Second Mortgage”, in favor of the New York Trust Company, to secure another set of bonds issued by said petitioner. Both instruments were duly filed with the Division of Archives, Patents, Copyrights and Trademarks of the Executive Bureau of the Philippine Government. Less than a year later, or on March 18, 1908, Act No. 1812 was approved. Sections 1 and 2 thereof provide:

> ” ‘SECTION 1. The first and second mortgages for the issuance of bonds executed by the Manila Railroad Company to the Central Trust Company of New York under date of January first, nineteen hundred and seven, and to the New York Trust Company of New York under date of April first, nineteen hundred and seven, respectively, shall become a lien upon all the property covered by the said instruments at and from the time the said instruments shall have been filed with the division of archives, patents, copyrights, and trade-marks of the Executive Bureau, which said lien shall be prior to and take precedence of any and all liens an encumbrances which may thereafter arise against the said property, except such liens as arise from the imposition of lawful taxes, fines, and assesments upon the same; and any subsequent conveyance of the said property, or any part thereof or any interest therein, shall be subject to the aforesaid lien.
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> ” ‘SEC. 2. Nothing in this Act contained shall be construed as depriving the grantees or beneficiaries under said instruments of any right or lien in connection therewith which exists by law independent of this Act.* * *

On May 19, 1909, petitioner executed a deed whereby its “Southern Lines” properties, including “all the lands * * * now owned or hereafter acquired or constructed as a part of or appurtenant to” said lines, were mortgaged to the Farmers’ Loan,& Trust Company, Said deed, entitled “Southern Lines First Mortgage”, was, on June 28,1910, filed with said Division of Archives, Patents, Copyrights and Trademarks. Prior thereto, or on April 19, 1910, Act No. 1977 had been approved. Sections 1 and 2 thereof read as follows:

> “‘SECTION 1. The first deed of mortgage and contract of guaranty of May nineteenth, nineteen hundred and nine, as approved by the Secretary of War on the twenty-eighth day of January, nineteen division of archives, patents, copy-

> rights, and trade marks of the favor of the Government of the Philippine Islands and of the Farmers' Loan and Trust Company of New York, as trustees, shall be and constitute a lien upon all the properties described in the said instrument from the time of the filing of said instrument with the division of archives, patents, copy-rights, and trademarks of the Executive Bureau, which lien shall be prior to and take precedence of any and all liens and incumbrances which may thereafter arise against the said property, except such liens as arise from the imposition of lawful taxes, fines and assessments upon the same. Any subsequent conveyance of said property, or any part thereof, or any interest therein, shall be subject to the aforesaid lien.
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> "'SEC. 2. In consideration of the agreements executed by the bondholders of the first and second mortgages of The Manila Railroad Company in favor of the Central Trust Company of New York and of the New York Trust Company, subordinating the lien of the said first and second mortgages to that mentioned in the preceding section, which shall be filed with the mortgage and contract of guaranty referred to in section one hereof, the provisions of Act Numbered Eighteen hundred and twelve are hereby modified:
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> Provided, however, That the lien granted in said mortgages shall continue in force and effect insofar as it does.not refer to all the properties set forth in the deed of mortgage executed in favor of the Government of the Philippine Islands, and of the Farmers' Loan and Trust Company of New York, as trustees. The said subordination shall commence to take effect from the date of the filing with the division of archives, patents, copyrights, and trademarks of the Executive Bureau, of the subordinating agreements executed by .the Manila Railroad Company with the bondholders of the first and second mortgages.'"

Still later, or on July 1, I916rto guarantee payment of its bonds, petitioner constituted, in favor of the Central Trust Company of New York, a "Refunding Mortgage" on its "Northern Lines", as well as its "Southern Lines", including

> " 'Also all the lands, easements and interests in lands, rights of way, stations and depot grounds * * * now owned or hereafter acquired or constructed which are or shall be a part of, appurtenant to, or used in connection with its lines of railway, extensions and branches, whether of the 'Northern Lines' or. 'Southern Lines' * *

> * all the estate, rights, title, interest, property, possession, claim and demand whatsoever, as well at law as in equity, of the Railroad Company, of, and to or appurtenant to or connected with its lines of railway, branches, terminals, premises and other property or the business of the Railroad Company and every part and parcel thereof, with the appurtenances and the franchises appertaining or hereafter to appertain thereof;
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> " 'SUBJECT, HOWEER, as to the lines of railway, franchise, and other property comprising said Southern Lines, and pertaining thereto, described and embraced in and subject to said Southern Lines First Mortgage, to the lien of said mortgage, and to the lien of the Government of the Philippine Islands for the payments, if any, of interest guaranteed by it on the bonds issued thereunder, made and to be made prior to the maturity of said bonds as the same may be extended as herein before recited; and
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> " 'Subject to the lien of said First Mortgage and the lien of said Second Mortgage as long as any of the bonds secured by either of said mortgages shall remain outstanding and until said mortgages shall have been duly discharged of record, and as to additional property which may hereafter be acquired by the Railroad Company subject to an existing lien or mortgage, as hereinafter provided, the lien of this Indenture shall be subject to such prior lien or mortgage.'"

The corresponding deed of "Refunding Mortgage" was filed with the Division of Archives, already referred to, on April 23, 1917.

It is not disputed that said Lot No. 3 is part of petitioner's "Southern Lines", which is covered by the deeds of Mortgage above-mentioned. Inasmuch as the latter have been filed with said Division of Archives in conformity with Acts Nos. 1812 and 1977, it; follows that the lot in question is subject to the statutory liens established in said statutes, "at and from the time the said instruments shall have been filed with the division of archives * * * *which said liens shall be prior to and take precedence of any and all liens and encumbrances which may thereafter arise against the said property* * * * and. any subsequent conveyance of the said property * * * shall be *subject* to the aforesaid lien."

Although conceding that the same was constituted on Lot No. 3 by virtue of Acts Nos. 1812 and 1977, the appellee maintains that the liens in question are not statutory until registered in accordance with law. The flaw in this argument is obvious. If the customary, individual

specific registration under the Torrens System and the annotation on the certificate of title were essential to the existence of a given encumbrance, the same would be an ordinary lien, not a statutory one. Moreover, as already pointed out, the deeds of mortgage on petitioner's Southern Lines—which include said Lot No. 3—were filed with the Division of Archives, which is all that Acts Nos. 1812 and 1977 requires for the creation of the statutory liens therein provided for. In other words, the aforementioned filing of said deeds of mortgage amounted to registration, within the purview of said legislative enactments.

> "* * * The statutes may, however, provide alternative offices for recording instruments and, in that case, a record in either office is sufficient In some instances, the original records of the clerk of court's office are considered just as much notice to third parties as the conveyance records. The statutes must in every case be examined to determined where instruments concerning land are to be recorded." (45 Am. Jur. 450.)

Again, the right of *bona fide* purchasers, for value, of property registered under the Torrens System, to acquire title thereto free from any or all liens or encumbrances, except those noted on the corresponding certificate of title, is, not, absolute, but subject to the following exceptions, namely:

> "*First*. Liens, claims, or rights arising or existing under the laws or Constitution of the United States or, of the Philippine Islands which the statutes of the Philippine Islands cannot require to appear of record in the registry,
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> "*Second.* Taxes within two years after the same become due and payable.
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> "*Third.* Any public highway, way, private way established by law, or any Government irrigation canal or lateral thereof, where the certificate of title does not state that the boundaries of such highway, way, or irrigation canal or lateral thereof, have been determined.
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> "But if there were easements or other rights appurtenant to a parcel of registered land which for any reason have failed to be registered, such easements or rights shall remain so appurtenant notwithstanding such failure, and shall be held to pass with the land until cut off or extinguished by the registration of the servient estate or in any other manner." (Section 39, Act No.

496.)

Does the lien in question fall under the first exception? The appellee contends that the answer should be in the negative, because said exception refers to statutory liens “which the statutes of the Philippine Islands *cannot* require to appear of record in the registry”. But, what liens cannot be required by statute to be recorded in the registry? The appellee has not mentioned, or even, suggested any. Neither can we conceive any, except such as would entail a deprivation of property without due process of law or an impairment of contractual obligations. Said lien, however, could not possibly be the one alluded to in the first exception above quoted, for, if a statute directing the registration of said lien would contravene the due process or the impairment clause in the Bill of Rights, the imposition—upon a purchaser, for value, in good faith—of the obligation to respect said liens, even if not noted on the certificate of title, would be worse, and, hence, unconstitutional. In short, appellee’s theory would I lead to a legal absurdity, which cannot be avoided unless I said exception were construed to refer to statutory liens [not required by law to be recorded in the registry of deeds. This view becomes more imperative when we consider that any irreconcilable conflict between said Act No. 496, on the one hand, and Acts Nos. 1812 and 1977, on the other, should be resolved in favor of the latter enactments, not only because the same are subsequent in point of time, but, also, because they deal specially with liens established to guarantee petitioner’s bonds, whereas Act No. 496 refers, in general, to all encumbrances affecting registered properly. In fact appellee admits that, if the lien in question were a statutory one, is would “subsist and *bind the whole world* even without the benefit of registration.”

It is urged that the recognition of the liens in dispute and the registration thereof would defeat the purpose of the Land Registration Act and impair the rights vested in the herein appellee, who claims to be a purchaser for value without notice of the existence of said liens. This argument is, however, fallacious, for it overlooks the fact that Act No. 496 respects the statutory liens mentioned in said section 39 thereof. In this connection, Niblack, in his Analysis of the Torrens System, uses the following language:

> “* * * It is sometimes, though infrequently, said that the condition of the title to a piece of registered land may be seen at a glance at the register. From any point of view this statement is incorrect. The terms of mortgages and leases must be examined, and there “may be instruments filed, but not yet entered. While one

must look to the register for any estate in land, there are many things which do not appear on it,—taxes and special assesments for which the land had not been sold at the date of the certificate, public highways and public rights of user, rights of way or other easements, * * *. Conditions, restrictions, limitations and covenants running with the land are merely noted on the register, and the instrument containing them must be inspected, in the registrar's office in order to determine their scope and legal effect. A writer who has given the subject of the register a thorough consideration has said: 'Registered estates and interests and equitable rights * * * do not together exhaust the field of possible rights in or to land under the (Torrens) system. There is a residium or rights, neither registered nor merely equitable, which closely resemble 'legal' rights of the general law; *they are not liable to be defeated by any change of ownership of the land, but remain inherent in, or attacked to, the land in the hands of each successive owner.* * * *.

"* * * in their constituting an exception to the general rule of the Torrens system which requires all interests to be registered as a condition of binding land into whosoever hands it may come, the principle on which that rule rests is not unduly violated. Inherent rights are either (1) connected with the visible user or actual occupation of land; or (2) in the nature of public rights created by the general statutes and ascertainable without difficulty. * * * *In dealing with land, whether registered or unregistered, all these matters must.be inquired into, and the inquiry must be made in the same way in each case.*

"The main point is that under the Torrens system there is no escape from the necessity of inquiry of parties in possession, unless the system is made so tight as to be. unworkable and cumbersome. If under this system there w.ere no need of inquiry as to rights of persons in possession and as to the condition of the property at the time of the sale, mechanic's lien laws would be absolutely inapplicable to registered land. At the registry offices in this country *persons about to deal with registered land are plainly told that the register relates to estates in land and private liens only, that searches must be made for taxes and special assessments and that inquiries must be made* as to rights of possession, and as to mechanic's liens, public highways and easements. In Chicago certificates of title under the Torrens system have the following notice printed on them: 'Caution. This certificate does not certify to special assesments or current

> taxes. Upon each transfer a search is made by the registrar showing them. Prospective purchasers or registered property may obtain the same on application prior to transfer.' A person does not purchase a piece of real estate merely because he has examined the register and is pleased with the condition of the title. He buys it because of its location, improvement, rent roll, etc., and because, after inspection, he desires it. The dedication of a public road is not affected by the registration acts. The existence of a road through a piece of land puts an intending purchaser on inquiry. *He must also inquire about the possibility of mechanics liens on the property.* Under one act all registered land is subject to tenancies created for any term not exceeding thirty-one years, or for any less estate, in cases where there is occupation under such tenancies. *Other acts provide for unregistered leases for three years or more.* It is not an essential feature of the Torrens System that possession of land shall not be notice of the rights of the occupant to an estate in the land. In some of the states of Australia a certificate of title is declared to be subject 'to any rights subsisting under any adverse possession', and in those states inquiry must be made of an occupant as to his rights in and claims on the land." (Italics supplied.) (pp. 333-335.)

Besides, all persons are presumed to know the law, and, consequently, the apellee is, in legal contemplation, deemed to be aware of the liens established under Acts Nos. 1812 and 1977.

> "*Notice affecting subsequent purchasers*.—The general rules as to notice apply as between a prior mortgagee and a subsequent purchaser of property, that is, as a general rule such a purchaser will take the property subject to the lien of the mortgage, although it is unrecorded, if he takes with actual or constructive notice of the existence of the mortgage and its terms, or with knowledge of facts which should have put him on inquiry." (59 C. J. S. p. 319.)

> "* * * *The purchaser is chargeable with knowledge of statutes relating to mortgages* and mortgaged property and of the terms and conditions of the mortgage." (59 C. J. S. p. 554.)

> "A mortgage may be constituted by act of legislature, as where a railroad company accepted certain bonds issued under an act which declared that the bonds should 'constitute' a first lien and mortgage upon the road and property' of

> the company. The word 'property' includes all the lands of the company, and *any sale made by it is subject to the mortgage*." (I Jones on Mortgages, 290-291.)

What need is there, asks appellee, to register said statutory lien? The very reasons adduced by appellee to defeat the petition in the case at bar and the alleged injustice, it says, will result therefrom, readily indicate the advisability, propriety and soundness of the registration sought by petitioner herein. Indeed, if the lien in question binds the whole world—as, we hold, it does—without registration^ what wrong could ihere be in its registration ? If everybody is deemed to have constructive knowledge of said lien, what possible objection could there be to giving actual notice thereof to all?

We must, also, bear in mind that petitioner herein Is one of the instrumentalities of the Philippine Government, It is important that those dealing with petitioner whether as holders of its bonds or as assignees of its properties— should have no occasion to doubt, either the good faith of our Government, or the Iatter's willingness and ability to meet its obligations. Consequently, the fact that petitioner has conveyed Lot No. 3 to the appellee does not divest the former of its right to seek the relief prayed for.

With reference to the laches invoked in the order appealed from, suffice it to say that

> " 'Laches' is purely a creation of equity and can be invoked only where plaintiff appeals to *equity* and seeks enforcement and *equitable* right. Lustenberger *vs*. Hutchinson, Mo. 119 S. W. 2nd 921, 296.
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> " 'Laches' is purely defense to *equitable* claim, *having no place as defense to action* at law or action wherein plaintiff stands on claim of legal title. Cullen *vs*. Johnson, 29 S.W. (2d) 39, 43, 325 Mo. 253.
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> "Action to quiet title was law action, not barred by 'laches, which is purely defense to equitable cause of action. Rev. St. 1919, 1970, Mo. St. Ann. 1520, p. 1682. Cullen *vs*. Johnson, 29 S. W. 2d 39, 43, 325 Mo. 253.
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> " 'Laches' is an equitable doctrine, proceeding, regardless of the statute of limitations, to do equity, and is only applied to worked out equitable results. Adams *vs*. Gossom, 129 S.W. 16, 21, 228 Mo. 566,
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> "Laches is *equitable* defense under code, recognized only in suit in equity, and

> means delay making in inequitable to accord plaintiff relief prayed for (Jud. Code sec. 274b [28 USCA sec. 398]). Thorpe *vs*. Wm. Filene's Sons Co. (D. C. Mass.) 40 F. (2d) 269.
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> "The doctrine of 'laches' is an *equitable* principle invoked to promote, but *never to defeat, justice*. It has no function where the analogous action at law is not barred and no unusual conditions invoke its application. Brun *vs*. Mann. 151 F. 145, 80 CCA. invoke its application. Brun *vs*. Mann. 151 F. 145, 154, 80 CCA. 513, 12 L.R.A., N. S. 154." (24." Words & Phrases, p. 92). (Italics scoring supplied.)
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> " 'Laches' is an equitable doctrine which will deny an applicant relief where he has waited an unreasonable and unexplained length of time in pursuing his remedy *and the delay has been prejudicial* to his adversary. Pfeiffer *vs*. Berke, 121 N.Y.S. 2d 744, 779.
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> "The doctrine 'laches' is the principle that equity will not aid a plaintiff whose unexcused delay, if the suit were allowed, would be *prejudicial* to the defendant.. Major *vs*. Shaver, 187 F. 2d 211, 212, 88 U.S. App. D.C. 148." (24 Words & Phrases, Cumulative Annual Pocket Part, p. 39.) (Italics supplied.)

If, as above stated, the statutory liens in question are binding upon the appellee, even if not registered under the Torrens System—not only in view of the specific provisions of Acts Nos. 1812 and 1977, but, also, because said appellee is deemed to have constructive notice of said liens—it follows that the annotation of said liens in the corresponding certificate of title, which, appellee admits, is not a matter of legal necessity, could not injure, in any manner whatsoever, its rights. Upon the other hand, apart from showing to petitioner's bondholders that we have a responsible Government, which is even 'punctilious in the discharge of its duties, said annotation would inure to the the public, particularly those who may, subsequently, wish to buy the lot in question or have a business transaction in connection therewith. Lastly, it would merely facilitate the enforcement of a legal, statutory right, which cannot be barred by laches.

Wherefore, the order appealed from is hereby reversed, and another one shall be entered directing the Register of Deeds in and for the province of Rizal to enter in its record the aforementioned statutory liens and to annotate the same on the certificate of title above referred to, with the costs of this instance against herein appellee. It is so ordered.

G.R. No. L-8683. October 24, 1956

Paras, C. J., Padilla, Montemayor, Bautista Angelo, Labrador, Reyes, J. B. L., Endencia, and *Felix, JJ.*, concur.

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