

****Title:**** Philippine National Bank (PNB) vs. Mercedes Corpuz: A Lesson in Due Diligence for Mortgagee Banks

****Facts:**** Mercedes Corpuz secured a job as a cashier at the Dagupan City Rural Bank on October 4, 1974, and as part of her employment agreement, she surrendered her Transfer Certificate of Title (TCT) No. 32815 to the bank as security against any potential liabilities. Upon her departure to the United States and having incurred no liabilities, the lien on her title was cancelled on October 24, 1994. Unbeknownst to Corpuz, Natividad Alano, the bank manager, conspired with Julita Camacho, Amparo Callejo, and an individual from the assessor's office to forge a deed of sale dated February 23, 1995, purporting to sell Corpuz's land to "Mary Bondoc" for P50,000. This illegal act led to a series of dubious transactions and subsequent TCTs: first, to Bondoc (TCT 63262), then to the Palaganases (TCT 63466), and finally to the Songcuans (TCT 63528), who mortgaged the property to Philippine National Bank (PNB) for P1.1 million.

Upon learning of the issue, Corpuz initiated legal action through an attorney-in-fact on November 20, 1995, to annul the fictitious deeds of sale, cancel the fraudulent TCTs, and reinstate her original title (TCT 32815). The Regional Trial Court (RTC) of Dagupan ruled in favor of Corpuz on June 29, 1998, a decision upheld by the Court of Appeals (CA) on July 31, 2007. PNB contested the CA decision, bringing the case to the Supreme Court.

****Issues:**** The paramount issue before the Supreme Court was to determine whether PNB could be considered a mortgagee in good faith, entitled to its lien on the title to the disputed property, despite the suspicious circumstances surrounding the previous transfers of said property.

****Court's Decision:**** The Supreme Court upheld the decisions of both the RTC and the CA, emphasizing that as a banking institution, PNB is expected to exercise heightened diligence when dealing with properties offered as collateral. The Court noted PNB's failure to contest the CA's finding that it was aware of the prior TCTs and the rapid succession of transfers, which should have aroused suspicion. The Court pointed out that the questionable low sales values of the property at each transfer should have incited further investigation by PNB. The Supreme Court declared PNB could not be deemed a mortgagee in good faith and affirmed the CA's decision, denying PNB's petition.

****Doctrine:**** This case reaffirms the doctrine that banks, given their role in public interest, must exercise a higher standard of diligence in verifying the legitimacy of the titles to

properties they accept as collateral. It underscores that a deliberate ignorance of facts that reasonably warrant suspicion cannot qualify an entity as an innocent mortgagee for value.

****Class Notes:****

- ****Due Diligence in Mortgage Lending:**** Before accepting a property as security, banks must conduct thorough investigations to verify the title and the history of ownership transfers.
- ****Mortgagee in Good Faith:**** For a bank to be considered a mortgagee in good faith, it must prove that it took all necessary precautions to determine the title's authenticity and the rightful ownership of the property being mortgaged.
- ****Transfers Triggering Suspicion:**** Rapid changes in property ownership or transactions involving significantly undervalued sales prices should alert a bank to the possibility of fraudulent or suspicious activities requiring further investigation.

****Historical Background:**** This case illustrates a pivotal moment in Philippine jurisprudence, highlighting the responsibilities of banking institutions in property transactions. It serves as a cautionary tale, prompting reforms in how banks assess and process mortgages, emphasizing the importance of integrity and thoroughness in financial dealings to protect the interests of rightful property owners and maintain public trust in the banking system.