

Title: Philippine National Bank vs. Juan F. Vila

Facts:

The Philippine National Bank (PNB), a universal banking corporation duly authorized by the Bangko Sentral ng Pilipinas, petitioned for the reversal of a Court of Appeals (CA) and Regional Trial Court (RTC) decision declaring PNB not a mortgagee in good faith in relation to a parcel of land mortgaged by Spouses Cornista to secure a loan from the Traders Royal Bank (Traders Bank). Following the failure of Spouses Cornista to satisfy the loan, the land was sold at auction to respondent Juan F. Vila, who subsequently faced challenges in consolidating ownership due to an improperly issued Certificate of Redemption allowing the Spouses Cornista to repurchase the land. Vila initiated legal action against the Spouses Cornista and the Registrar of Deeds, resulting in decisions favoring him, which PNB ignored when granting the Spouses Cornista a loan using the disputed property as collateral. Despite Vila's legal victories, PNB foreclosed on the property following the Spouses Cornista's default on their new loan. Vila then pursued another round of litigation resulting in the RTC and subsequently the CA, ruling against PNB's claim of being a mortgagee in good faith.

Issues:

1. Whether or not PNB is a mortgagee in good faith.
2. Whether or not PNB is liable for damages.

Court's Decision:

The Supreme Court denied PNB's petition, affirming the decisions of the RTC and CA, citing that PNB failed to exercise the required diligence as a financial institution. The Court reiterated that ascertaining the status of property offered as security is an indispensable part of the bank's operation, and PNB's failure to discover the property's real ownership status and ongoing litigation signifies negligence. Consequently, PNB cannot claim the protection accorded to mortgagees in good faith. The Court also upheld the damages awarded to Vila for PNB's negligence.

Doctrine:

The case reinforces the doctrine that banks, being in the business of extending loans secured by real estate mortgages, are expected to exercise a higher degree of diligence, care, and prudence than private individuals. Even when dealing with registered lands, banks cannot rely solely on the certificate of title's face but must take further steps to verify the title and inspect the properties to be mortgaged.

Class Notes:

- **Mortgagee in Good Faith:** Requires the mortgagee to exercise a high degree of diligence in inspecting and verifying the title and condition of the property to be mortgaged, including the true ownership and any claim or encumbrance that may affect the property.

Critical Legal Provision: “A bank cannot assume that, simply because the title offered as security is on its face free of any encumbrances of lien, it is relieved of the responsibility of taking further steps to verify the title and inspect the properties to be mortgaged.” (Land Bank of the Philippines v. Belle Corporation, G.R. No. 205271, 2 September 2015).

- **Due Diligence in Banking Operations:** Banks are expected to conduct ocular inspections and verify the genuineness of the title and the property’s actual condition before approving loan applications using real estate as collateral.

Historical Background:

This case highlights issues surrounding real estate transactions, mortgage, and foreclosure in the Philippines, particularly emphasizing the responsibilities of banking institutions in vetting properties used as loan security. It builds on a legal premise that banks are presumed aware of the legal standards governing real estate transactions and must conduct their operations with the utmost care to protect the interests of all parties involved, especially against fraudulent claims on property ownership.