

**\*\*Title:\*\*** Philippine Banking Corporation vs. Arturo Dy, et al.

**\*\*Facts:\*\*** In Barangay Tongkil, Minglanilla, Cebu, a 58,129-square meter lot owned by Cipriana Delgado, covered by TCT No. 18568, was the center of a complex legal dispute. Cipriana and her husband Jose Delgado agreed to sell the property to Cecilia Tan for P10.00 per square meter, with partial payments to be made over time. After paying a total of P147,000.00 and ready to settle the balance, Tan demanded the execution of the sale deed, which the Delgados refused. Subsequently, Tan discovered that the property had been sold to the Dys and mortgaged to Philippine Banking Corporation (Philbank), leading to a lawsuit for annulment of title, specific performance, reconveyance, and damages against the Delgados, the Dys, and Philbank.

The Delgados acknowledged receiving partial payments but denied a perfected sale due to a price disagreement. They claimed the sales to the Dys were simulated to facilitate a loan, which the Dys later defaulted on after receiving the loan proceeds. The Delgados sought to cancel the Dys' titles and the mortgage in Philbank's favor, while Philbank claimed innocence as a mortgagee. The legal battle moved through the Regional Trial Court (RTC) of Cebu City, which dismissed the Delgados' claims, to the Court of Appeals (CA), which nullified the transactions between the Delgados and the Dys and directed the cancellation of the Dys' titles in favor of Cipriana.

**\*\*Issues:\*\*** The Supreme Court was tasked with determining whether the CA erred in nullifying the contracts of sale between the Delgados and the Dys, whether Philbank was a mortgagee in good faith, and whether the doctrine of estoppel applied to prevent the Delgados from denying the validity of the mortgage constituted over the lots.

**\*\*Court's Decision:\*\*** The Supreme Court found the CA's decision to nullify the contracts of sale to be final and executory, thus rejecting Arturo Dy's Petition-in-Intervention. However, it ruled that despite the simulation of the deed of sale, Philbank's mortgage rights over the properties should be maintained due to its status as a mortgagee in good faith. The Supreme Court underscored that the determination of good faith is a factual issue, but given the discrepancies between the RTC and CA findings, it warranted review. It held that the principle of "mortgagee in good faith" is upheld for entities dealing with property covered by a Torrens Certificate of Title but noted that banks require a higher standard of diligence. The Court determined that Philbank's failure in due diligence did not amount to bad faith as the underlying fraudulent transaction was between the Dys and the Delgados, which Philbank had no knowledge of. Thus, it affirmed the CA's decision with modification,

upholding Philbank's mortgage rights.

**\*\*Doctrine:\*\*** This case reiterates the doctrine that a simulated deed of sale is null and void but does not nullify the rights of a mortgagee or transferee who acts in good faith. It also highlights the heightened standard of diligence expected of banks and financial institutions as entities imbued with public interest.

**\*\*Class Notes:\*\***

1. **\*\*Doctrine of Mortgagee in Good Faith:\*\*** All persons dealing with property covered by a Torrens Certificate of Title are not required to go beyond what appears on the face of the title unless there are obvious red flags indicating fraud. Banks, however, are held to a higher standard of due diligence.

2. **\*\*Simulation of Contracts:\*\*** A simulated contract, particularly one that falsifies the consideration or is intended to deceive third parties, is null and void. However, this does not automatically impair the rights of third parties who, in good faith, relied on the face of the title.

3. **\*\*Indefeasibility of a Torrens Title:\*\*** Registration under the Torrens system confirms and records already existing and vested title. It does not create new title nor can it be used as a shield for fraud.

4. **\*\*Due Diligence in Banking:\*\*** Banks are expected to perform thorough due diligence before approving a loan secured by a mortgage to ensure that the mortgagor has a valid title and that no third-party rights are infringed.

**\*\*Historical Background:\*\*** This case reflects the Philippine legal system's efforts to balance the interests of innocent parties and maintain the integrity of the Torrens system of land registration, emphasizing the importance of due diligence, especially for financial institutions, in transaction involving land titles to prevent fraud and uphold the principle of indefeasibility of title.