

### Title:

**\*\*Cruz vs. Bancom Finance Corporation: A Scrutiny on Simulated Contracts and Mortgagee's Good Faith\*\***

### Facts:

In May 1978, Edilberto and Simplicio Cruz, owners of a 33.9335-hectare parcel of agricultural land in Bulacan, were approached by Norma Sulit for a purchase proposition. Despite the Cruzes' price of P700,000, Sulit offered P25,000 as earnest money with the promise to pay the balance once titles were transferred. Following Sulit's failure to pay the balance, a convoluted plan involving a simulated sale to Candelaria Sanchez, who then executed another deed of sale to Sulit, was executed, ostensibly to secure bank loans using the property as collateral.

Norma Sulit managed to mortgage the property to Bancom Finance Corporation for P569,000 without fulfilling payment obligations under a Special Agreement with the Cruzes. Upon Sulit's default, the property was foreclosed and acquired by Bancom at the auction. The Cruzes then initiated a legal battle for reconveyance upon discovering the mortgage and Sulit's disappearance.

The case escalated through the legal system, with Bancom intervening in the trial court proceedings claiming to be a mortgagee in good faith. Both the Regional Trial Court (RTC) and the Court of Appeals (CA) were involved, with the latter reversing the decision of the RTC which had initially voided the sales and mortgage due to absolute simulation.

### Issues:

1. The validity of the Deeds of Sale and the subsequent Mortgage based on allegations of absolute simulation.
2. Whether Bancom Finance Corporation acted as a mortgagee in good faith, meriting preferential rights over the property despite the simulated contracts.

### Court's Decision:

The Supreme Court ruled in favor of the Cruzes, reinstating the RTC's decision that declared the Deeds of Sale and the Mortgage null and void due to absolute simulation. The Court detailed that an absolutely simulated contract, void from the beginning, transfers no rights; thus, Sulit, having no ownership right, could not validly mortgage the property. It underscored the critical role of due diligence for banks in mortgage transactions, noting Bancom's failure to investigate the property and the title's anomalies.

**\*\*Issue-by-Issue Analysis\*\*:**

- **\*\*Validity of Sales and Mortgage\*\*:** The Court found that neither the Cruzes nor Sanchez received the purported sales consideration, indicating an absolute simulation aimed merely at securing bank loans. This rendered the sales and subsequent mortgage contract null and void.
- **\*\*Good Faith of Mortgagee\*\*:** The Supreme Court emphasized that Bancom, as a mortgagee-bank, was obligated to exercise higher due diligence, which it failed to do. Additionally, the pre-existing adverse claims and lis pendens annotations on the title known to Bancom further invalidated its claim as a mortgagee in good faith.

**### Doctrine:**

The Supreme Court reiterated the doctrine that absolutely simulated contracts are void ab initio, transferring no ownership rights. Consequently, a purported buyer cannot mortgage a property, nor can a foreclosure sale confer title in the absence of valid ownership. A banking institution is expected to exercise due diligence before entering into a mortgage contract.

**### Class Notes:**

- **\*\*Simulation of Contracts\*\*:** Distinguishes between absolute simulation, where parties do not intend to create binding effects, and relative simulation, meant to conceal a different agreement.
- **\*\*Void Contracts\*\*:** A contract based on absolute simulation is void from its inception, transferring no rights.
- **\*\*Mortgage and Good Faith\*\*:** Banks and financial institutions are held to a higher standard of diligence in verifying the status and condition of properties before constituting mortgages.
- **\*\*Doctrine of Prior Registration\*\*:** The registrational precedency of adverse claims and notices of lis pendens over a mortgage affects the enforceability of said mortgage against third parties.

**### Historical Background:**

This case underlines the judiciary's stance on protecting the true ownership of property and emphasizes the critical role of diligence in real estate transactions, especially involving financial institutions. It revisits established doctrines on simulated contracts and mortgages in the Philippine legal context, underscoring the importance of genuine transactions and good faith in upholding property laws.