

****Title:****

****Lillian N. Mercado, Cynthia M. Fekaris, and Julian Mercado, Jr., vs. Allied Banking Corporation****

****Facts:****

1. ****Principal Actors:****

- Petitioners: Lillian N. Mercado, Cynthia M. Fekaris, and Julian Mercado, Jr. (represented by their Attorney-In-Fact, Alfredo M. Perez)
- Respondent: Allied Banking Corporation
- Third-party: Perla N. Mercado

2. ****SPAs and Transactions:****

- On May 28, 1992, Perla N. Mercado executed a Special Power of Attorney (SPA) in favor of her husband, Julian D. Mercado. The SPA authorized Julian to manage, sell, and mortgage Perla's properties, which included properties in Oriental Mindoro, Susana Heights, Muntinlupa, and Cavite.

3. ****Loan and Mortgage:****

- Based on this SPA, Julian obtained a loan of PHP 3,000,000 and later, another loan amounting to PHP 5,000,000 from Allied Banking Corporation, securing both loans with a real estate mortgage on the property covered by TCT No. RT-18206 (106338), incorrectly specified in the SPA as RT-106338 and located in Quezon City Registry.

4. ****Revocation and Legal Actions:****

- Perla revoked the SPA on March 10, 1993.
- Petitioners later challenged the mortgage, claiming the SPA did not cover TCT No. RT-18206, and the SPA had been revoked. They also alleged Allied Banking was informed about the revocation through the Registry of Deeds of Quezon City.

5. ****RTC Decision:****

- RTC declared the mortgage and the subsequent auction as null and void, ordering Allied Banking to return the property titles free of encumbrances and awarding PHP 100,000 in attorney's fees to petitioners.

6. ****CA Decision:****

- The Court of Appeals (CA) reversed the RTC decision, holding that the SPA did include the

subject property and that the revocation did not bind third parties like Allied Banking since it was not in a public instrument.

****Issues:****

1. Was there a valid mortgage constituted over the subject property?
2. Was there a valid revocation of the SPA?
3. Was Allied Banking Corporation a mortgagee in good faith?

****Court's Decision:****

1. ****Validity of the Mortgage:****

- The Supreme Court held that the property described in the SPA (RT-106338 of Pasig) did not match TCT No. RT-18206 of Quezon City. There was no evidence that these titles referred to the same property. Perla's SPA did not cover the subject property making the mortgages Julian executed unenforceable.

2. ****Revocation of the SPA:****

- The Supreme Court affirmed that Perla had indeed revoked the SPA via a public instrument on March 10, 1993. This revocation was properly communicated to the Registry of Deeds of Quezon City, rendering Julian's authority to mortgage void. Even though the revocation was not annotated, the bank's reliance on the SPA should have included due diligence to uncover these facts.

3. ****Mortgagee in Good Faith:****

- The respondent's assertion of being a mortgagee in good faith was dismissed. Allied Banking failed to exercise due diligence—essentially, it ignored discrepancies in the SPA and the TCT numbers, indicating a lack of prudence expected from a bank. It overlooked the revocation notice filed with the Registry of Deeds and did not perform comprehensive checks.

****Doctrine:****

- ****Strict Construction of Power of Attorney:**** The authority granted in an SPA must be strictly limited to the explicit terms agreed upon. Any deviation or extension of such powers voids actions performed outside the specific scope.

- ****Rigorous Standard for Banks:**** Banks must exercise a higher degree of diligence and scrutiny in transactions involving registered lands, given their fiduciary roles and public

trust.

- **Constructive vs. Actual Notice:** Although constructive notice via annotation is important, actual notice (such as letters informing relevant parties of revocations) is considered superior, especially in matters of property rights.

Class Notes:

- **Special Power of Attorney (SPA):** Under Article 1878 of the Civil Code.

- **Mortgage Requirements:** Article 2085 of the Civil Code: (1) Securing a principal obligation, (2) Absolute ownership by the mortgagor, (3) Legal authorization if not the owner.

- **Revocation of Agency:** Article 1920 of the Civil Code: Principal can revoke the agency at will.

- **Constructive Notice:** Property Registration Decree (PD No. 1529): Registrations serve as constructive notice to the public.

Historical Background:

- **Collection and Enforcement of Loans:** This case highlights the complexities surrounding property loans and safeguarding against fraudulent claims via rigorous legal procedures for documentation and verification.

- **Duties of Financial Institutions:** The decision reiterates the responsibility of banking institutions to perform due diligence beyond superficial document checks to protect interests of all parties involved.