

****Title:**** Canlas vs. Court of Appeals, Asian Savings Bank, Maximo C. Contreras, and Vicente Mañosca, G.R. No. 25242

****Facts:****

In August 1982, petitioners Osmundo S. Canlas and Vicente Mañosca planned to start a business, seeking capital. Canlas authorized Mañosca to mortgage two parcels of land owned by Canlas and his wife, Angelina. Later, Canlas agreed to sell these properties to Mañosca for ₱850,000, receiving two post-dated checks (₱40,000 and ₱460,000). The larger check was unfunded. Subsequently, impersonators acting as the Canlas spouses helped Mañosca mortgage the properties for ₱100,000 to Attorney Manuel Magno on September 3, 1982. On September 29, 1982, Mañosca secured a ₱500,000 loan from Asian Savings Bank (ASB) using the properties as collateral, again using impostors.

When Mañosca defaulted, ASB initiated an extrajudicial foreclosure. Canlas, upon discovering this, notified ASB and requested annulment of the mortgage. This was ignored, leading Canlas to file a case for annulment of the mortgage and a writ of injunction on February 3, 1983. The lower court's decision annulled the mortgage and the auction sale and ordered damages and fees against ASB and Mañosca. ASB appealed, and the Court of Appeals reversed the trial court's decision, attributing negligence to Canlas and upholding the mortgage's validity. Canlas then filed a Petition for Review with the Supreme Court under Rule 45.

****Issues:****

1. Whether the mortgage was valid.
2. Whether the petitioners were negligent and should bear the loss.
3. Whether ASB exercised due diligence in approving the loan.
4. Whether ASB acted in bad faith by proceeding with the foreclosure.
5. Whether ASB was entitled to moral damages.

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

1. ****Validity of Mortgage:**** The Supreme Court found the mortgage void as it was executed by impostors without the Canlas spouses' knowledge or consent. Banks have a higher duty of diligence than ordinary mortgagors, particularly in verifying the identity of individuals. ASB's verification process was inadequate as it relied solely on signatures and residence certificates.

2. ****Negligence:**** While Canlas exhibited some negligence by trusting Mañosca with the

property titles, it was ASB that had the last clear chance to prevent the fraud by meticulously verifying the identities. ASB's failure in this duty led the Court to hold it ultimately responsible for the loss.

3. **Due Diligence:** ASB failed its obligation to verify the true identities of the individuals mortgaging the properties. Basic due diligence was not followed, as shown by the reliance on past documents and the inability to produce identification cards.

4. **Bad Faith in Foreclosure:** The Court disagreed with the Court of Appeals' conclusion of no bad faith since ASB was aware of the identity issues raised by Canlas and still proceeded with the foreclosure without proper verification.

5. **Moral Damages:** The award of moral damages to ASB was inappropriate as the Bank exhibited negligence and bad faith in its dealings.

Doctrine:

Banks must exercise extraordinary diligence, beyond that of a good father of a family, in dealing with registered properties and must meticulously verify the identities of individuals involved in transactions to avoid fraud. The doctrine of last clear chance is applicable, where the party with the last opportunity to prevent harm and fails to do so bears the consequences.

Class Notes:

- **Elements of a Valid Mortgage:** Ownership of the property by the mortgagor, authority to mortgage, and valid consent of the owner.
- **Due Diligence Required of Banks:** Extraordinary diligence in identity verification, especially in dealings involving registered land.
- **Doctrine of Last Clear Chance:** Responsibility falls on the party that had the final opportunity to avoid the damage but failed to act.
- **Article 1173, Civil Code:** Denotes the standard of care expected, emphasizing that negligence matched by bad faith attracts higher liabilities.
- **Public Interest in Banking:** The safeguarding of depositor funds requires banks to act prudently in all their transactions.

Historical Background:

The case highlights issues within the Philippine financial and banking system, particularly in the 1980s, involving fraudulent schemes and the banking sector's liability in property transactions. The Court's decision reiterates the heightened responsibility of banks amidst

growing incidences of fraud and the changing economic landscape during that time.