

Title: Traders Royal Bank vs. Patria Capay, et al. and Ramon A. Gonzales

Facts:

1. The dispute arose from a mortgage executed by Spouses Maximo and Patria Capay in favor of Traders Royal Bank (TRB) pursuant to a loan. The mortgage covered several properties, including a parcel of land in Baguio City, Philippines.
2. The loan matured on January 8, 1964, but remained unpaid, prompting TRB to initiate extrajudicial foreclosure proceedings.
3. On September 22, 1966, the Capays filed a petition for prohibition with preliminary injunction before the Court of First Instance (CFI) of Rizal, arguing the mortgage was void due to non-receipt of loan proceeds, temporarily halting the foreclosure sale.
4. A *lis pendens* notice was filed on March 17, 1967, over the disputed property.
5. The injunction was later lifted, and the foreclosure sale proceeded, leading to TRB's purchase of the property at auction on October 17, 1968.
6. Consolidation of ownership in TRB's name followed on February 25, 1970, leading to the cancellation of the Capays' title and issuance of a new one in TRB's name without carrying over the *lis pendens*.
7. A supplemental complaint for property recovery was filed by the Capays against TRB, eventually resulting in the CFI declaring the mortgage void on October 3, 1977.
8. TRB appealed to the Court of Appeals, selling the land to Emelita Santiago during pendency, who had it re-titled without the *lis pendens*.
9. Santiago subdivided and sold the property to Marcial Alcantara, Armando Cruz, and Artemio Sanchez, leading to multiple buyers obtaining clean titles.
10. On July 30, 1982, the Court of Appeals affirmed the CFI's decision but modified damages. TRB's petition for certiorari was denied by the Supreme Court on September 12, 1983, finalizing the decision.
11. The non-implementation of the writ of execution necessitated a new action by the Capays for recovery of possession/ownership filed on June 8, 1985, naming TRB and subsequent transferees as defendants.
12. A 1991 RTC decision favored the Capays, canceling current titles and ordering issuance of new titles in their name along with damages against TRB.
13. TRB and the buyers, now called non-bank respondents, appealed, affirming the RTC decision in toto by the Court of Appeals in 1994. However, non-bank respondents' motions for reconsideration led to a reversal sparing them liability.

Issues:

1. Which party—between the Capays and the non-bank respondents—has a superior claim to

the disputed property?

2. Is TRB liable to the Capays for damages?

Court's Decision:

1. **Property Claims:**

- The Supreme Court ruled in favor of the non-bank respondents (subsequent land buyers) since their purchase was made in good faith, relying on clean titles, without notice of the pending litigation due to the non-entry of lis pendens on subsequent titles.
- The Capays were found guilty of laches for failing to pursue diligently their rights.

2. **TRB's Liability:**

- The Court held TRB liable for damages to the Capays, as it acted in bad faith by selling the property without disclosing ongoing litigation, knowing about the adverse decision.
- The TRB was ordered to pay the fair market value of the property at the time of sale to Santiago.

Doctrine:

- The case reiterates that in land disputes, a purchaser in good faith and for value has an indefeasible claim against prior unregistered claims.
- The act of registration, particularly lis pendens, is crucial for notice and protection of interests.
- Laches serves to bar claims where there is an inordinate delay rendering the enforcement of rights inequitable.

Class Notes:

- **Notice of Lis Pendens:** Must be registered to apprise third parties of existing claims.
- **Indefeasibility of Titles:** Purchasers relying on a clean Torrens title are protected under the Torrens system.
- **Laches:** Concept essential in property disputes emphasizing that rights must be promptly asserted.

Historical Background:

- The case is reflective of post-war economic conditions in the Philippines, where banking institutions deployed loans secured by real property, often leading to complex litigation upon defaults.
- It demonstrates evolving jurisprudence on issues of registration, notice, and the intersection of equitable defenses in property law claims.