

Title: Mercado vs. Allied Banking Corporation, G.R. No. 82636

Facts:

1. Perla N. Mercado owned several properties and executed a Special Power of Attorney (SPA) in favor of her husband Julian D. Mercado on 28 May 1992, allowing him to manage these properties, including the authority to mortgage them.
2. Julian used the SPA to obtain a loan of P3,000,000 from Allied Banking Corporation (respondent) on 12 December 1996, secured by a real estate mortgage on a property registered as TCT No. RT-18206 (106338) in Quezon City.
3. Julian secured an additional loan of P5,000,000 from the respondent on 5 February 1997, using the same property as collateral.
4. The SPA cited properties, including one with TCT No. RT-106338 located in Pasig (now Makati), but not TCT No. RT-18206 in Quezon City.
5. Julian defaulted on the loans, leading to extrajudicial foreclosure and public auction of the property, which the respondent won.
6. Petitioners, heirs of Perla, initiated an annulment action on 23 March 1999, arguing that Julian had no authority to mortgage the property covered by TCT No. RT-18206 (106338) since the SPA did not reference this property and had been revoked by Perla on 10 March 1993.
7. Respondent contended that TCT No. RT-18206 (106338) and RT-106338 (Pasig, now Makati) referred to the same property, arguing the difference was a clerical error and did not affect the SPA's intention.
8. RTC ruled in favor of the petitioners on 23 September 2003, nullifying the mortgages and foreclosure proceedings.
9. This decision was reversed by the Court of Appeals on 12 October 2005, which held that Perla intended the subject property to be included in the SPA and that the revocation of the SPA was not binding on the respondent.
10. Petitioners sought relief from the Supreme Court, challenging the validity of the mortgages, the SPA's revocation, and the respondent's status as a mortgagee-in-good-faith.

Issues:

1. Whether a valid mortgage was constituted over the subject property.
2. Whether the revocation of the SPA was valid and effective.
3. Whether the respondent was a mortgagee-in-good-faith.

Court's Decision:

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

- The Supreme Court ruled that the property covered by TCT No. RT-18206 (106338) in Quezon City was not included in the SPA, which mentioned TCT No. RT-106338 in Pasig.
- This mortgage constituted by Julian over the property is therefore unenforceable as he lacked authority, despite the respondent's claim of a clerical error.

2. **Revocation of the SPA:**

- The SPA was explicitly revoked by Perla on 10 March 1993 through a public document, which was communicated to the Registry of Deeds of Quezon City in 1996.
- The revocation was thus binding upon third parties, including the respondent, as it constituted constructive notice via the Registry's records.

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

- Respondent failed to demonstrate prudence expected of a banking institution by ignoring discrepancies in the SPA and the mortgage documents.
- It was clear that greater scrutiny was required, given the differences in TCT numbers and locations between Quezon City and Pasig.
- As such, the respondent could not claim good faith.

Doctrine:

- **Strict Construction of SPA:** A power of attorney grants only the authority expressly provided. This mandate excludes any powers not explicitly detailed.
- **Constructive Notice:** Knowledge of any agency revocation via public records is as binding as direct knowledge.
- **Higher Prudence Requirement for Banks:** Banking institutions are expected to exercise exceptional diligence when dealing with transactions involving properties, given their public trust and fiduciary responsibilities.

Class Notes:

- **Elements of a Valid Mortgage:** Authority, Ownership, and Disposal Faculties (Article 2085, Civil Code).
- **Agency Revocation:** Can be done at will and must be duly publicized to affect third parties (Article 1920, Civil Code).
- **Prudence in Banking:** Banks are held to a higher standard of caution in property transactions, especially involving agents' authority (General Banking Law of 2000).

Historical Background:

- This case narrates how property and banking laws interface with agency law, particularly

in high-stakes transactions involving significant amounts of money. It underscores the importance of due diligence and clear documentation in real estate and mortgage dealings, especially scrutinizing banks' fiduciary roles.