

**DEVELOPMENT BANK OF THE PHILIPPINES, PLAINTIFF-APPELLANT,  
VS. LOURDES GASPAR BAUTISTA, THE DIRECTOR OF LANDS AND  
THE NATIONAL TREASURER OF THE PHILIPPINES,  
DEFENDANTS-APPELLEES.**

*G.R. No. L-21362. November 29, 1968*

Ponente: FERNANDO, J.

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**FERNANDO, J.:**

The question this appeal from a judgment of a lower court presents is one that possesses both novelty and significance. It is this! What is the right, if any, of a creditor which previously satisfied its claim by foreclosing extrajudicially on a mortgage executed by the debtor, whose title was thereafter nullified in a judicial proceeding where she was not brought in as a party?

As creditor, the Development Bank of the Philippines now appellant, filed a complaint against one of its debtors, Lourdes Gaspar Bautista, now appellee, for the recovery of a sum of money representing the unpaid mortgage indebtedness, which previously had been wiped out with the creditor bank acquiring the title of the mortgaged property in an extrajudicial sale. There-after, the title was nullified in a judicial proceeding, the land in question being adjudged as belonging to another claimant, without, however, such debtor, as above, noted, having been cited to appear in such court action.

The Development Bank was unsuccessful, the lower court being of the view that with the due process requirement thus flagrantly disregarded, since she was not a party in such action where her title was set aside, such a judgment could in no wise be binding on her and be the source of a claim by the appellant bank. The complaint was thus dismissed by the lower court, then presided by Judge, now Justice, Magno Gatmaitan of the Court of Appeals. Hence, this appeal by appellant bank.

Such dismissal is in accordance with law. There is no occasion for us to repudiate the lower court.

From the very statement of facts in the brief for appellant bank, the following appears: "On or before May 31, 1949, the defendant-appellee, Lourdes Gaspar Bautista, who shall here-after be referred to as Bautista, applied to the Government for the sale in her favor of a parcel of land with an area of 12 has., 44 ares, and 22 centares, located at Bo. Sta. Barbara, San Jose, Nueva Ecija. After proper investigation, Sales Patent No. V-132 covering said property was issued in her favor on June 1, 1949 (Exh. A-1) by the Director of Lands. Sales Patent No. V-132 was registered in the office of the Register of Deeds of Nueva Ecija pursuant to Section 122 of Act 496 on June 3, 1949 (Exh. A), as a result of which Original Certificate of Title No. P-389 was issued in her favor." [1]

How the loan was contracted by now appellee Bautista was therein set forth. Thus: "On July 16, 1949, Bautista applied for a loan with the Rehabilitation Finance Corporation (RFC), pre-decessor in interest of the plaintiff-appellee Development Bank of the Philippines (DBP), offering as security the parcel of land covered by O.C.T. No. P-389. Aside from her certificate of title, Bautista also submitted to the RFC other documents to show

her ownership and possession of the land in question, namely, Tax Declaration No. 5153 (Exh. A-4) in her name and the blueprint plan of the land. On the basis of the documents mentioned and the appraisal of the property by its appraiser, the RFC approved a loan of P4,000.00 in favor of Bautista. On July 16, 1949, Bautista executed the mortgage contract over the property covered by O.C.T. No. P-389 and the promissory note for P4,000.00 in favor of the RFC (Exhs. C and C-1), after which the proceeds of the loan were released." [2]

The satisfaction of the mortgage debt with the acquisition of the title to such property by appellant Bank, by virtue of an extrajudicial foreclosure sale, and such title losing its validity in view of a court proceeding, where however, appellee Bautista, was not made a party, was next taken up in the brief of plaintiff-appellant. Thus: "Bautista failed to pay the amortization on the loan so that the RFC took steps to foreclose the mortgage extrajudicially under Act 3135, as amended. In the ensuing auction sale conducted by the sheriff of Nueva Ecija on June 27, 1951, the RFC acquired the mortgaged property as the highest bidder (Exh. D). On the date of the sale, the total obligation of Bautista with the RFC was P4,858.84 (Exh. I). On July 21, 1952, upon failure of Bautista to redeem the property within the one (1) year period as provided by law, plaintiff-appellant RFC consolidated its ownership thereon (Exhs. E and E-I). On July 26, 1952, the Register of Deeds of Nueva Ecija cancelled O.C.T. No. P-389 and replaced it with T.C.T. No. NT-12108 in the name of the RFC (Exhs. F and F-1). On or about this time, however, an action (Civil Case No. 870) was filed by Rufino Ramos and Juan Ramos in the Court of First Instance of Nueva Ecija against the Government of the Republic of the Philippines and the RFC (as successor in interest of Bautista) claiming ownership of the land in question and seeking the annulment of T.C.T. No. 2336 in the name of the Government, O.C.T. No. P-389 in the name of Bautista and T.C.T. No. NT-12108 in the name of the RFC. A decision thereon was rendered on June 27, 1955 (Exhs. G, G-1, and G-3) whereby the aforementioned certificates of title were declared null and void." [3]

Why the complaint had to be dismissed was explained thus in the decision now on appeal: "The Court after examining the proofs, is constrained to sustain her on that; it will really appear that she had never been placed within the jurisdiction of the Nueva Ecija Court; as the action there was one to annul the title, it was an action strictly in personam, if that was the case as it was, the judgment there could not in any way bind Lourdes who had not acquiesced in said decision in any way for what only happened is that as to the mortgage, the Bank foreclosed, and then sold unto Conrada and when the title had been annulled, the Bank reimbursed Conrada; stated otherwise, the annulment of Lourdes' title was a proceeding ex-parte as far as she was concerned and could not bind her at all; and her mortgage was foreclosed and the Bank realized on it, when the Bank afterwards acquiesced in the annulment of the title and took it upon itself to reimburse Conrada, the Bank was acting on its own peril because it could not have by that, bound Lourdes at all." [4]

As stated at the outset, the decision must be affirmed. The fundamental due process requirement having been disregarded, appellee Bautista could not in any wise be made to suffer, whether directly or indirectly, from the effects of such decision. After appellant bank had acquired her title by such extrajudicial foreclosure sale and thus, through its own act, seen to it that her obligation had been satisfied, it could not thereafter, seek to revive the same on the allegation that the title in question was subsequently annulled, considering that she was not made a party on the occasion of such nullification.

If it were otherwise, then the cardinal requirement that no party should be made to suffer in person or property without being given a hearing would be brushed aside. The doctrine consistently adhered to by this Court whenever such a question arises in a series of decisions is that a denial of due process suffices to cast on the official act taken by whatever branch of the government the impress of nullity. [5]

A recent decision, *Macabingkil v. Yatco*, [6] possesses relevance. "A 1957 decision, *Cruzcosa v. Concepcion*, is even more illuminating in so far as the availability of the remedy sought is concerned. In the language of this

Court, speaking through Justice J.B.L. Reyes: The petition is clearly meritorious. Petitioners were conclusively found by the Court of Appeals to be co-owners of the building in question. Having an interest therein, they should have been made parties to the ejectment proceedings to give them a chance to protect their rights; and not having been made parties thereto, they are not bound and can not be affected by the judgment rendered therein against their co-owner Catalino Cruzcosa, Jr. \* \*." Two due process cases deal specifically with a writ of execution that could not validly be enforced against a party who was not given his day in court, *Sicat v. Reyes*, and *Hamoy v. Batingolo*. According to the former: 'The above agreement, which served as basis for the ejectment of Alipio Sicat, cannot be binding and conclusive upon the latter, who is not a party to the case. Indeed, that order, as well as the writ of execution, cannot legally be enforced against Alipio Sicat for the simple reason that he was not given his day in court.' From the latter: 'The issue raised in the motion of Rangar is not involved in the appeal for it concerns a right which he claims over the property which has not so far been litigated for the reason that he was not made a party to the case either as plaintiff or as defendant. He only came to know of the litigation when he was forced out of the property by the sheriff, and so he filed the present motion to be heard and prove his title to the property. This he has the right to do as the most expeditious manner to protect his interest instead of filing a separate action which generally is long, tedious and protracted.'"

Reinforcement to the above conclusion comes from a codal provision. According to the Civil Code:[7] "The vendor shall not be obliged to make good the proper warranty, unless he is summoned in the suit for eviction at the instance of the vendee." While not directly in point, the principle on which the above requirement is based sustains the decision of the lower court. In effect, appellant bank would hold appellee Bautista liable for the warranty on her title, its annulment having the same effect as that of an eviction. In such a case, it is wisely provided by the Civil Code that appellee Bautista, as vendor, should have been summoned and given the opportunity to defend herself. In view of her being denied her day in court, it would follow, if the intent of the above codal provision were to be respected, that she is not obliged to make good the proper warranty."

In the suit before the lower court, the Director of Lands and the National Treasurer of the Philippines were likewise made defendants by appellant bank because of its belief that if no right existed as against appellee Bautista, recovery could be had from the Assurance Fund. Such a belief finds no support in the applicable law, which allows recovery only upon a showing that there be no negligence on the part of the party sustaining any loss or damage or being deprived of any land or interest therein by the operation of the Land Registration Act.[8] This certainly is not the case here, plaintiff-appellant being solely responsible for the plight in which it now finds itself. Accordingly, the Director of Lands and the National Treasurer of the Philippines are likewise exempt from any liability.

WHEREFORE, the judgment appealed from is affirmed, with costs against the Development Bank of the Philippines.

Concepcion, C.J., Reyes, J.B.L., Dizon, Makalintal, Zaldivar, Sanchez, Castro, and Capistrano, JJ., concur.

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[1] Statement of Facts, Brief for the Plaintiff-Appellant, p. 2.

[2] *Ibid*, pp. 2 to 3.

[3] *Ibid*, pp. 3 to 4.

[4] Record on Appeal, pp. 28 to 29.

[5] *Cf. Cuaycong v. Sengbengco*, L-11837, Nov. 29, 1960.

[6] L-23174, Sept. 18, 1967.

[7] Art. 1558, Civil Code of the Philippines.

[8] Cf. Sec. 101 of the Land Registration Act (Act No. 496).

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