

CRISTINA PENULLAR, PETITIONER, VS. PHILIPPINE NATIONAL BANK, RESPONDENT.

G.R. No. L-32762. January 27, 1983

Ponente: GUTIERREZ, JR., J.

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GUTIERREZ, JR., J.:

The principal issue raised in this petition is whether or not the Court of Appeals, even as it sustained the trial court's finding that the titles covering the disputed parcels of land are null and void, could still declare that the mortgages annotated on those titles are valid.

The Court of Appeals stated the facts of this case as follows:

"RESOLVING: On Appeal Civil Case No. D-894 of the Court of First Instance of Pangasinan instituted by Cristina P. Penullar against Florencio Felix, et al., for declaration of absolute nullity of judicial proceedings in which after filing of the complaint on 9 May, 1959, answer on 27 May, 1959 by the Philippine National Bank stipulation of facts on 1 February, 1967 and hearing on 11 August, 1967 with only plaintiff presenting evidence purely documentary there was after that promulgated decision disposing:

"WHEREFORE, in view of all the foregoing the Court rules that:

- (1) That the proceedings made under Land Registration Case No. 16347 are null and void;
- (2) that all the titles issued by the Land Registration Court pursuant to the said Land Registration proceedings, as well as all Certificate of Title flowing from the said original title are null and void;
- (3) that the land covered by this case are the registered properties of the plaintiff over which she holds an irrevocable and indefeasible title over the same;
- (4) that the writ of possession issued by the land registration court on 26 of September 1958 in connection with Land Registration Case No. 16347 is null and void;
- (5) that since the plaintiff has been found to be the sole and absolute owner of the properties in question, the defendants are hereby ordered to vacate the same and to surrender the possession as well as the ownership thereof in favor of the plaintiff;
- (6) that the defendants are required to render a true and faithful accounting of the fruits of the said properties from September 26, 1958 until the possession of the plaintiff has been restored, and to indemnify value of said products as may be found in said accounting.

The defendants are likewise ordered to pay the costs of this suit."

... ..

which defendant Philippine National Bank has taken here on appeal on the errors assigned in its brief;

"IT APPEARING: That the antecedents are rather complicated; it will be the task of this Court to simplify; on 27

February, 1936 claiming that she was the absolute owner but that therein defendants were pretending to have an interest in the property and had intruded sometime in December, 1935, Genoveva Miguel filed Civil Case No. 7199 in the Court of First Instance of Pangasinan against Praxedes Moya, et al., predecessors of herein plaintiff Cristina Penullar, for declaration of ownership over three (3) portions of agricultural land situated at Bayambang, Pangasinan; Praxedes Moya and companions presented their answer in due time Exh. A-1: while that Civil Case No. 7199 was pending, Genoveva Miguel presented formal application for registration of her title on 1 February, 1938 in Land Case No. 16347; and Praxedes Moya opposed on 10 June, 1938 Exh. B-3; well then on a date which is not very clear in the records but during the pendency of both Civil Case No. 7199 and the land registration Case No. 16347, Praxedes Moya was able to obtain free patent over the property and unto her was issued Original Certificate of Title No. 3148 and on another parcel also was issued a free patent in the name of one Josefa Sison also one of herein plaintiff's predecessors and unto her was issued Original Certificate of Title No. 2932; in both cases, Civil Case No. 7199 and Expediente 16347 trial Judge issued order on 15 February, 1940 suspending hearing in order to give a chance to Genoveva Miguel to investigate the Original Certificates of Title No. 3148 and 2932 Exh. A-4, issuing a supplementary order on 11 September, 1940 that said cases be held in abeyance,

"Until after the Department of Agriculture and Commerce pass upon the complaint that Genoveva Miguel and others have made for the cancellation or withdrawal of the free patent certificate issued in the name of Praxedes Moya and others.

'the parties shall immediately notify the Court soon after the Department of Agriculture and Commerce renders any action on said claim.' Exh. B-6;

but nothing more happened with respect to the cancellation of the free patents; and so it was that, on 22 May, 1947 Exh. A-7 because

'since September 11, 1940 up to this date, the plaintiff has failed to take any steps for the prosecution of her action.'

trial Judge in Civil Case No. 7199 dismissed the case,

'without prejudice and without pronouncement as to costs,'

and what Genoveva Miguel instead did after that was to prosecute the registration case and after the same had been finally heard, in the absence of Praxedes Moya, et al., the Registration Court promulgated its decision on 20 December, 1955 ordering the inscription of the properties now in question in the name of applicant Genoveva Miguel's heirs because she had died in the meantime and as the judgment afterwards became final: Genoveva Miguel or better stated her successor-in-interest applied for a writ of possession which was granted by the Registration Court on 25 September, 1958 and it was executed by the Sheriff on 30 September, 1958 but in the words of the Sheriff, herein plaintiff successor-in-interest of oppositor Praxedes Moya,

'vehemently objected to the possession of the applicant,'

and a few months after that herein plaintiff Cristina Penullar filed the present Civil Case No. T-894 for annulment of the Registration Proceeding specifically the decision rendered therein and the titles issued pursuant to that in the name of the heirs of Genoveva Miguel, namely Original Certificates Nos. 14242, 24244, 24240, 14238, 24313 as well as the incumbrance by way of mortgage constituted by the said adjudicatees in favor of the Philippine National Bank, on the position that the lands having already been registered, although by way of free patent, the titles in the names of Praxedes Moya and Josefa Sison, predecessors-in-interest of Cristina Penullar became an absolute bar against posterior registration and in the trial of the case plaintiff submitted her case on the basis of aforementioned documentary proofs constituting of Exhs. A to O, against this, Philippine National Bank in its

answer p. 23 R.A. submitted as special defense that it was an innocent mortgagee for value having granted loans to the adjudicatees in the registration case namely Maximo Alejo, Filomeno Domingo, Serafina Gascon relying on their titles which appeared to be genuine, issued in due course and regular on their face; and it is to be stated that the fact of this constitution of the mortgages in favor of the Philippine National Bank by the said adjudicatees successors-in-interest of Genoveva Miguel does not appear to be debated; but trial Judge after hearing the case held for Cristina Penullar successors-in-interest of Praxedes Moya and Josefa Sison and annulled the titles issued pursuant to the decision of the Land Registration Court in favor of the successor-in-interest of Genoveva Miguel; ..."

The respondent Court of Appeals modified the appealed decision to the effect "... that the mortgages in favor of Philippine National Bank attacked by plaintiff are hereby declared valid." In all other respects, the decision of the lower court was affirmed. (Annex "D", p. 18, rollo)

Not satisfied with the modified decision, plaintiff-appellee Cristina Penullar filed a motion for reconsideration and when the motion was denied by the respondent court, filed the instant petition.

The petitioner assigns the following errors:

I

THE COURT OF APPEALS ERRED IN HOLDING AS VALID THE MORTGAGES NEVER ANNOTATED IN PETITIONER'S TITLES BUT IN THE VOID TITLES OF RESPONDENT'S CO-DEFENDANTS.

II

THE COURT OF APPEALS ERRED IN ADJUDICATING RESPONDENT'S APPEAL UPON AN ISSUE NOT RAISED IN THE PLEADINGS BEFORE ITSELF NOR BEFORE THE TRIAL COURT.

III

THE COURT OF APPEALS ERRED IN RESORTING TO PALPABLY UNTENABLE THEORIES AND POSTULATES TO JUSTIFY ITS DECISION.

The main issue centers on the ruling of the Court of Appeals' sustaining the validity of the mortgages in favor of the respondent Philippine National Bank.

The petitioner contends: 1. that the Court of Appeals did not have a basis to rule on the matter since the issue of the Philippine National Bank as a mortgagee in good faith was never raised before the trial court and the Court of Appeals, and 2. under the facts obtaining in the case was not justified in ruling that respondent Philippine National Bank's mortgages were valid.

The record on Appeal filed by the Philippine National Bank shows that in the Answer of the bank, there was alleged the special defense "... that the Philippine National Bank, a credit institution, in the ordinary course of business, in good faith and for valuable consideration, is an innocent purchaser having granted loans to Maximo Alejo... and to Filomeno Domingo and Serafina Gascon... under the security of Torrens Title issued to the borrower and relying on the fact of the same which appeared to be genuine, regular and in due form." (Record on Appeal, p. 24) Moreover, respondent Philippine National Bank on the very theory that it was a mortgagee in good faith filed a Motion to Dismiss the case as against it. (Record on Appeal, pp. 31-34) And this motion was subject to another URGENT MOTION for Resolution filed by respondent Philippine National Bank (Record on Appeal, pp. 39-40). The same motion prompted the petitioner plaintiff in the trial court, to file an Opposition thereto, (Record on Appeal, pp. 40-41) which in turn led the respondent Philippine National Bank to file a Reply to the

Opposition. (Record on Appeal, pp. 48-50).

In its appeal to the Court of Appeals, the Philippine National Bank maintained its position that it was a mortgagee in good faith. Thus, in the third Assignment of Error of its brief filed before the appellate court, the Philippine National Bank adequately discussed its being a mortgagee in good faith. The first proposition is without merit.

The second proposition covered by the first and third assignment of errors is premised on the following arguments: Since the torrens titles wherein respondent Philippine National Bank's mortgages were annotated were declared void, necessarily the same mortgages annotated in the said torrens title should also be declared void, on the theory that a mortgage is but an accessory contract. The petitioner maintains that her torrens titles should not answer for the same mortgages since the latter were not annotated considering the "fundamental principle of registration that Torrens titles are affected only by the encumbrance registered and annotated in said titles." Furthermore, she argues that to validate the mortgages annotated in the void titles of Philippine National Bank's co-defendants but never annotated in her torrens titles would in effect revalidate the void titles to co-exist with her valid title.

The petitioner considers the ruling of the Court of Appeals inconsistent because according to her no valid lien could emanate from a void title.

The petitioner's arguments have no merit. The Court of Appeals fully explained the reasons why the mortgages annotated in the void torrens titles should be considered valid. Thus:

"... now in resolving this question let it be granted that there is clear logic in the position of appellees that the titles of the heirs of Genoveva Miguel mortgagors to Philippine National Bank having been declared void, on the principle that the rights of Philippine National Bank being dependent upon those void titles, Philippine National Bank should not be permitted to pretend that its mortgages should be considered a valid encumbrance upon the property, for it is like the branch of a dead tree so to speak but the trouble is that cases cannot be decided upon pure logic; the fact of the matter is that the Bank relied upon regular Torrens Titles issued pursuant to a regular judgment of the registration Court: there is no showing, absolutely no showing, that the Bank was made specifically aware of the fact that this very property already covered by the free patents were only afterwards adjudicated to and Torrens Titles issued in the name of the heirs of Genoveva Miguel, who were the parties that afterwards had secured the mortgages from the Bank, not only this, the declaration of nullity of the titles of the heirs of Genoveva Miguel due to the fact that there had already been free patents issued in the names of plaintiff's predecessors Praxedes Moya and Josefa Sison came in only much later and in fact as of the time when these mortgages were accepted by the Bank, there was as yet no decision declaring the titles of the mortgagors null and void; stated otherwise there can be no denying the fact that the Bank was made to rely and had the right to rely upon regular certificates of title first presented to it by the mortgagors; ..." (Rollo, pp. 17-18)

The foregoing findings and conclusions of the respondent Court are sustained by rulings in precedent cases.

In *Director of Lands v. Abache* (73 Phil. 606) the principal issue hinged on whether or not the mortgage lien annotated on the torrens title which was declared null and void should likewise be ordered null and void. We said:

"Where, however, innocent third persons, relying on the correctness of the certificate of title thus issued, acquire rights over the property, the court cannot disregard such rights and order the total cancellation of the certificate. The effect of such an outright cancellation would be to impair public confidence in the certificates of title, for everyone dealing with property registered under the Torrens System would have to inquire in every instance as to whether the title has been regularly or irregularly issued by the court. And this is contrary to the evident purpose of the law. Section 39 of Act No. 496 provides that every person receiving a certificate of title in pursuance of a decree of registration, and every subsequent purchaser of registered land who takes a certificate of title for value in good faith, shall hold the same free of all encumbrance except those noted on

said certificate. We have heretofore emphasized, and do so now, that every person dealing with registered land may safely rely on the correctness of the certificate of title issued therefor and the law will in no way oblige him to go behind the certificate to determine the condition of the property."

Resolving a similar issue in *Blanco, et al. v. Esquierdo, et al.* (110 Phil. 495) this Court ruled:

"That the certificate of title issued in the name of Frutuosa Esquierdo (mortgagor) is a nullity, the same having been secured thru fraud, is not here in question. The only question for determination is whether the defendant bank is entitled to the protection accorded to 'innocent purchasers for value,' which phrase, according to Sec. 38 of the Land Registration Law, includes an innocent mortgagee for value. The question, in our opinion, must be answered in the affirmative.

"The trial court, in the decision complained of, made no finding that the defendant mortgagee bank was a party to the fraudulent transfer of the land to Frutuosa Esquierdo. Indeed, there is nothing alleged in the complaint which may implicate said defendant mortgagee in the fraud, or justify a finding that it acted in bad faith. On the other hand, the certificate of title was in the name of the mortgagor Frutuosa Esquierdo when the land was mortgaged by her to the defendant bank. Such being the case, the said defendant bank, as mortgagee, had the right to rely on what appeared in the certificate and, in the absence of anything to excite suspicion, was under no obligation to look beyond the certificate and investigate the title of the mortgagor appearing on the face of said certificate. (*De Lara, et al. vs. Ayroso*, 95 Phil. 185; 50 Off. Gaz., [10] 4838; *Joaquin vs. Madrid, et al.*, 106 Phil. 1060). Being thus an innocent mortgagee for value, its right or lien upon the land mortgaged must be respected and protected, even if the mortgagor obtained her title thereto thru fraud...."

In the instant case, the Philippine National Bank relied on the torrens titles of the mortgagors which has been regularly issued. The torrens titles were the result of regular land registration proceedings duly registered with the Register of Deeds. There was nothing in the torrens titles which would excite suspicion that the same were fraudulently processed by the mortgagors. Applying, therefore, the principles enunciated in the afore-cited cases, the respondent Bank was not duty bound to further investigate the validity and/or invalidity of the torrens title.

The assertion that the Philippine National Bank could not be an innocent mortgagee in good faith considering that the same parcel of land covered by the invalidated titles was previously mortgaged by: first, Domingo Cayabyab, a predecessor-in-interest of the petitioner and second, by the petitioner herself under Transfer Certificate of Title No. 8822 to the respondent Philippine National Bank is not well-taken. An examination of the technical descriptions of the parcels of land covered by the three subject torrens titles shows that they are different from each other and there is no way for a reader to detect that the void torrens titles covered the same parcels of land in Transfer Certificate of Title No. 8822, previously mortgaged to the respondent Bank. Thus, Transfer Certificate of Title No. 8822 has the following technical description of the land it covers:

"A parcel of land Plan F-61451, situated in the barrio of Pant-at, Municipality of Bayambang, Province of Pangasinan, Islands of Luzon, Bounded on the Northeast by Lot No. 1-B of plan Psd-8364, Lot No. 1 of plan Psu-30431-Amd. and Lot No. 2 of plan Psu-37494 vs. Lot No. 2 of plan Psu-30431-Amd. on the Southeast, by property of Josefa Sison de Mananzan, on the Southwest, by properties of Maximiano Felix and Heirs of Martin Palisoc, and on the Northwest by Lot No. 5 of plan Psu-103094, and Lot No. 1-B of plan Psd 8364. Containing an area of ONE HUNDRED FIVE THOUSAND TWO HUNDRED SEVENTY EIGHT (105,278), square meters, more or less. Surveyed under authority of Sections 41, 43, Act No. 2874 and in accordance with existing regulations of the Bureau of Lands by Pedro Terrado, Private Land Surveyor, on Dec. 17, 1933."

On the other hand, the technical description of the parcel of land awarded to Maximo Alejo, mortgagor in one of the subject mortgages in favor of the respondent Bank, which appears in the writ of possession issued by the cadastral court in the voided land registration proceedings and which necessarily must have been included in the Original Certificate of Title No. 14240 issued in the name of the same Maximo Alejo reads:

"4. A parcel of land (Lot No. 3, plan Psu-103094). Bounded on the NE. by property of Gregorio de Leon and Domingo Rodriguez (before) Onofre Sison Abalos (now); on the SE. by Lot No. 2; on the SW. by properties of Flaviano Junio and Vicente Castillo; and on the NW. by Lot No. 4 Area 14,807 square meters. Adjudicated in favor of Maximo Alejo."

The technical description of the parcel of land awarded to Filomeno Domingo, the mortgagor in the other mortgage in favor of respondent Philippine National Bank, which description necessarily must have been inscribed on Transfer Certificate of Title No. 24313 issued in his name reads:

"1. A parcel of land (Lot No. 1, plan Psu-103094). Bounded on the N. and NW. by Lot No. 2; on the NE. by property of Gregorio de Leon and Domingo Rodriguez (before) Onofre Sison Abalos (now); on the SE. by Vecinal Road (before) heirs of German Maramba (now); and on the SW. by properties of Faustino Pinto and Filemon Padua. Area 27,463 square meters. Adjudicated in favor of Florencio Felix.

"2. A parcel of land (Lot No. 2, plan Psu-103094). Bounded on the NE. by property of Gregorio de Leon and Domingo Rodriguez (before) Onofre Sison Abalos (now); on the SE. and S. by Lot No. 1; on the SW. by property of Flaviano Junio; and on the NW. by Lot No. 3. Area 26,870 square meters. Adjudicated in favor of Florencio Felix."

We agree with the invocation by the Court of Appeals of the principle of equity:

"... if there be any doubt as to the correctness of this solution this court might as well invoke the principle that where one of two innocent parties must have to suffer due to the act of a third person, he whose negligence had caused the damage should be made to bear the loss; in the present case if the heirs of Genoveva Miguel, that is to say herein plaintiff had only been diligent, and had appealed from the decision in the registration case, no certificate of Title would have been issued just like that in the name of the heirs of Genoveva Miguel and no mortgage could have been constituted by them in favor of Bank but as it is, said successors of Praxedes Moya and Josefa Sison failed to do that; instead they let the decision in the registration case gain the status of finality; allowed without prior protest, the certificate of title to be issued; did not even as early as possible, annotate an adverse claim on the titles; and they filed this case only several months afterwards, it was their negligence that permitted said adjudicatees in the said registration case to apply for and secure mortgages from the Bank;"

The petitioner argues that neither she nor her predecessors could have appealed the decision in the land registration proceedings because: 1) her predecessors were already dead at the time of the promulgation of the decision, and 2) she was not substituted as a party nor was she aware of said registration proceedings, 3) petitioner's predecessor Praxedes Moya who was aware of the land registration proceedings had the right to rely on the previous suspension of the land registration proceedings; and 4) petitioner's predecessor had the right to rely on the dismissal of Civil Case No. 7199 filed by respondent's co-defendant against petitioner's predecessors for "declaration of ownership" over the subject parcels of land and that nobody notified petitioners or her predecessors of the revival of the void subsequent registration proceedings.

The arguments are not well-taken. The records show that Praxedes Moya, predecessor-in-interest of the petitioner, was fully aware of the subject land registration proceedings. From the stipulation of the Facts alone, the extent of her knowledge can be gleaned. Thus:

... ..

"(7) That Notice of Hearing of the Registration Case No. 16347, G.L.R.O. Record No. 52435, dated July 11, 1955 was issued by the Court, setting the trial for October 6, 1955.

"(8) Copy of this Notice of Hearing was sent by registered mail, under Registered letter No. 118, which was received by counsel for Praxedes Moya, Atty. Jose M. Garcia, on July 22, 1955, as evidenced by Registry Return Card of letter No. 118 attached in the Record of the said registration case on page 148; and,

"(9) Praxedes Moya herself received on July 23, 1955 copy of the Notice of Hearing as evidenced by Registry Return Card of registered letter No. 119 attached to the records of Registration Case No. 16347 on page 151. (See minutes of October 6, 1955, page 153 of the Records of Registration Case No. 16347, G.L.R.O. Records No. 52435.

"(10) On December 20, 1955, the Court rendered its decision in said Reg. Case 16347, Record 52435 making the following adjudication . . .

... ..

"Copy of this decision were (sic) sent by registered mail to Atty. Jose M. Garcia, counsel for Praxedes Moya, who received it on January 27, 1956 as evidenced by Registry Return Card of Letter No. 39 attached to the Record of Registration Case No. 16347, on page 187.

"(12) Praxedes Moya, herself, was also notified of this decision, furnished to her by registered letter which she received on January 30, 1956 as evidenced by Registry Return Card of Registered Letter No. 138, attached to the record of this registration Case 16347, on page 179." (Record on Appeal, pp. 55-56)

... ..

As successor-in-interest, the petitioner did not only succeed to the rights and interests of her predecessor-in-interest but she was also bound to recognize the liens and/or encumbrances attached to the subject parcels of land which by law are considered to be valid though not inscribed in the torrens title of that land. The petitioner cannot invoke her relationship with her predecessor when it is to her advantage and yet disclaim the effects of said relationship on exactly the same subject matter when it is to her disadvantage. This is the principle which the Court of Appeals took into consideration when it ruled that the negligence of petitioner's predecessor-in-interest was binding upon the petitioner herself notwithstanding her non-substitution as party to the subject land registration proceedings.

WHEREFORE, the decision appealed from is hereby affirmed. Costs against the petitioner.

SO ORDERED.

Teehankee (Chairman), Melencio-Herrera, Plana, Vasquez and Relova, JJ., concur.

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