

**RUBEN G. DAYAO, PLAINTIFF-PETITIONER, VS. FLORENCIA DIAZ,
FELISBERTO SANTOS, AND JUSTINA SANTOS,
DEFENDANTS-RESPONDENTS, THIRD-PARTY PLAINTIFFS,**

G.R. No. L-4106. May 29, 1952

Ponente: REYES, J.

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REYES, J.:

This is an appeal by certiorari from a decision of the Court of Appeals.

It appears that the late Dionisio de los Santos was the registered owner of a parcel of land with a Torrens title, having acquired the same from the Solocan Development Co, Subdivision. Annotated on the title was a mortgage for unpaid installments due the said company. In April, 1920, without the mortgage having been extinguished, Dionisio de los Santos executed a deed purporting to convey the land, together with his nipa house thereon, to Marcos Domingo by way of sale with right to repurchase within one year for the sum of P300.00, but in reality the transaction was intended by the parties to be merely a loan with security, or equitable mortgage. Contrary to this intention, Marcos Domingo, on November 15, 1932, executed an affidavit consolidating his title to the property and by means thereof was able to obtain a transfer certificate of title to his name, and then four days later he executed a deed purporting to assign his rights over the property to Engracio de Asis for the sum of P350.00.

On December 9, 1946, the land was sold to the plaintiff-petitioner Ruben Dayao. But the sale appears to have been accomplished in a roundabout way in that once the sale was agreed upon, the property was first reconveyed by Engracio de Asis to Marcos Domingo for P650.00 and then on the same day it was sold by the latter to the petitioner for the sum of P5,000.00.

Despite the conveyance executed by Dionisio de los Santos in favor of Marcos Domingo, the former and, after his death in 1924, his widow and children continued living on the land, paying interest on the P300.00 loaned to him by Domingo the real estate taxes on the property, and the balance of the purchase price due the Solocan Development Co. Subdivision. And when the purchaser Ruben Dayao attempted to take possession of the property, the widow and children of the deceased refused to surrender the same on the ground that it still belonged to them.

To recover the property, petitioner brought the present suit in the Court of First Instance of Manila against the widow and two of the children of the deceased. Answering the complaint, the defendants alleged that the conveyance of the property by the deceased to Marcos Domingo was not a sale with pacto de retro but only a mortgage; that Domingo therefore had no right to consolidate title to the property, and that both Engracio de Asis and plaintiff Ruben Dayao had notice of Domingo's defective title when they bought the property. They also filed a third party complaint against Marcos Domingo and Engracio de Asis.

After hearing, the Court of First Instance rendered its decision, the dispositive part of which reads:

"Premises considered, judgment is hereby rendered directing Engracio de Asis and Marcos Domingo to return

to the plaintiff jointly and severally the amount of P5,000.00, with legal interest from the filing of the complaint until its full payment. On the complaint in intervention, the Court renders judgment ordering Engracio de Asis to execute a deed of reconveyance of the property in question in favor of the defendants upon their payment of the mortgage debt in the amount of P300.00. Engracio de Asis and Marcos Domingo shall pay the costs."

On appeal the Court of Appeals modified the above decision as follows:

"We note, however, that, in the decision appealed from defendant Engracio de Asis is sentenced to execute a deed of reconveyance of the property in question in favor of the defendants-appellees. Inasmuch as said property is now registered in the name of plaintiff herein, it is he who should be ordered to execute such deed of reconveyance in favor, not merely of the defendants-appellees, for not all of the heirs of the deceased Dionisio de los Santos have been made parties in this proceeding, but of Florencia Diaz and said Heirs of Dionisio de los Santos, upon payment to the plaintiff of the sum of P300 due from said Dionisio de los Santos.

"With this modification, the decision appealed from is hereby affirmed in all other respects, with costs against the appellants."

From this decision plaintiff Ruben Dayao has appealed to this Court.

It being undisputed that, as declared by the Court of First Instance and the Court of Appeals, the alleged pacto de retro sale by Dionisio de los Santos in favor of Marcos Domingo was in reality only a loan with security, or equitable mortgage, so that Marcos Domingo had no right, through a mere affidavit executed by himself, to declare himself the owner of the property given as security and afterwards sell it to another, the question for determination is whether Ruben Dayao, who appears to be a purchaser for value, was also a purchaser in good faith. Dayao claims that he is. But the Court of Appeals found otherwise, and its conclusion is amply supported by facts established at the trial which, as found by that court, are stated in the following portion of its decisions:

"Is plaintiff-appellant Ruben G. Dayao a purchaser, for value, in good faith, who, as such, took the property free from such defenses as the defendants-appellees and/or their predecessors in interest have against the third-party defendants? The lower court decided this question in the negative, upon the following grounds:

"With respect to the plaintiff Dayao, the Court believes that he did not exercise reasonable diligence and caution before buying the property in question. While it is true that there is no existing encumbrance in the Torrens title, yet the circumstances surrounding the sale of the property to him should have aroused his suspicion. In the first place, the manner in which the property was sold to the plaintiff is so circuitous that one could not help entertaining fear that there was something queer in the deal. According to the plaintiff, upon being told that the owner of the lot was Engracio de Asis, the former went to the house of the latter. Once there, De Asis told the plaintiff that he could buy the property from Marcos Domingo. This alone should have put the plaintiff on his guard. The Torrens title is in the name of De Asis and yet the plaintiff was told to see Marcos Domingo as the person who could sell the lot. In the second place, exhibit 2-Asis shows that it was only on December 9, 1946 that De Asis transferred the land to Marcos Domingo, and it was on that very date when the sale of the property, to the plaintiff was consummated. In the third place, Engracio de Asis testified that he sold the property to Marcos Domingo for only P650.00 and that the latter sold it to the plaintiff for P5,000.00. If De Asis considered himself the owner of the property, there is absolutely no reason in the world why he should sell it to Marcos Domingo for only P650.00 and let Domingo make a profit several times more than the selling price. De Asis could have sold the property directly to the plaintiff, who went to De Asis first before going to Domingo. It is apparent, therefore, that the transfer of the property in question from Engracio de Asis to Marcos Domingo was nothing but an attempt to defraud the persons entitled to the ownership of the thing sold. Marcos Domingo and Engracio de Asis, by their wrongful act, have rendered themselves civilly liable.

"Engracio de Asis and Marcos Domingo set up the defense of prescription. There is no merit in this contention

because the evidence shows that Engracio de Asis, for the sum of P380.00, had agreed to reconvey the property to the defendants in a document which he promised to execute. The period of prescription, therefore, has been renewed from the time De Asis prepared and issued a receipt for P380.00, which receipt, the evidence shows, was later torn to pieces by De Asis himself.

"It is apparent likewise that Marcos Domingo had no right to sell the property in question to the plaintiff. The sale executed on December 9, 1946 between them is, therefore, null and void."

"Indeed, it appears that before closing the deal with the third-party defendants-appellants, or shortly after All Saints Day (November 1) in 1946, plaintiff and his father repaired to the lot in question on which the house of defendants-appellees is erected; that the former then found, in the place, Antonio Santos, a son of defendant Florencia Diaz and the deceased Dionisio de los Santos; and that, upon inquiry as to the amount of rentals paid for the use of the property, Antonio Santos replied, that defendants-appellees were not paying any rental, because they own said lot. Plaintiff and his father denied having had such conversation and alleged that the same (could) not have taken place because plaintiff did not have money with which to buy the property in question until November 20, 1946, on which date he sold a land, the price paid for which was part of the sum with which he purchased the property in question. We are not impressed by this argument, for ordinary experience shows that negotiations generally precede the sale of a property and that of plaintiff herein, which took place on November 20, 1946 (see Exhibit B), might have been effected precisely in contemplation of the acquisition of the lot in question after said inspection thereof and the negotiations relative to the terms and conditions of its acquisition.

"Moreover, plaintiff testified that his agreement to purchase said lot from Marcos Domingo was made with Engracio de Asis, the registered owner at the time: that plaintiff was advised by De Asis that he would first convey the property to Marcos Domingo, who would then assign it to the first; that plaintiff never saw Marcos Domingo except when Exhibit D was signed at the lobby of the People's Bank Building; and that this arrangement was made because Engracio de Asis had already agreed to sell the property to Marcos Domingo for the sum of P650 which was the very same consideration (or P350, plus the mortgage for P300) for the conveyance made by Marcos Domingo to Engracio de Asis in November, 1932, or 14 years before and Marcos Domingo was willing to convey the property to the plaintiff for P5,000. This testimony was partly contradicted by Engracio de Asis, who asserted that when plaintiff contacted him about the property in question, they had already come from Marcos Domingo, who fixed the sum of P5,000 as the price of the sale to the plaintiff. Again, Engracio de Asis declared that the price of P650 for the sale by him to Marcos Domingo was fixed, as an accident of the moment, on December 9, 1946, when the deed Exhibit D was executed. This shows that before December 9, they had had no contract either to sell or of sale, neither of which can exist without a meeting of the minds on a price fixed or determinable without another agreement. Now then, had Engracio de Asis, the registered owner, been willing to sell the property to Marcos Domingo for only P650, the former would have surely been more willing to sell it to plaintiff herein in much the same way as the latter would have been more willing to buy it for less than P5,000 (the price allegedly charged by Marcos Domingo), but more than P650, and in all probability the sale would have been made by De Asis directly to the plaintiff, if everything were above board. Similarly, if, as plaintiff contends, P5,000 was a reasonable price for the land in litigation, then the consideration of P650 for the reconveyance of the property by De Asis to Domingo, should have pricked plaintiff's suspicion about the fraudulent character of the transaction.

"Lastly, although transfer certificate of title No. 41506 (Exhibit I) was issued to De Asis on November 21, 1932, the mortgage thereon annotated appeared to have been constituted on December 12, 1918 or about 14 years prior to the issuance of said certificate of title, thus giving a clear indication that the mortgage could not have been constituted by Engracio de Asis.

"This and the circumstance that the deed of cancellation of the mortgage was issued in favor of Dionisio de los Santos on April 8, 1938, or 6 years after the issuance of said certificate of title (Exhibit 1) in the name of Engracio de Asis, and that the original of said deed of cancellation was not in the possession of Engracio de Asis, together with the other facts already adverted to, show that plaintiff herein had, at least, sufficient information to put him upon such inquiry, and investigation as would have acquainted him with the flaw in the title of his immediate predecessors in interest, and that his failure to make that inquiry bars(him from invoking the benefits given by law to purchasers for value in good faith."

The above findings of fact, which by law are conclusive upon this court, bring this case within the doctrine of *Leung Yee v. Strong Machinery Co. and Williamson* (37 Phil. 644) where this Court said:

"One who purchases real estate with knowledge of a defect or lack of title in his vendor cannot claim that he has acquired title thereto in good faith as against the true owner of the land or of an interest therein; and the same rule must be applied to one who has knowledge of facts which should have put him upon such inquiry and investigation as might be necessary to acquaint him with the defects in the title of his vendor. A purchaser cannot close his eyes to facts which should put a reasonable man upon his guard, and then claim that he acted in good faith under the belief that there was no defect in the title of the vendor. His mere refusal to believe that such defect exists or his willful closing of his eyes to the possibility of the existence of a defect in his vendor's title will not make him an innocent purchaser for value, if it afterwards develops that the title was in fact defective, and it appears that he had such notice of the defect as would have led to its discovery had he acted with that measure of precaution which may reasonably be required of a prudent man in a like situation. Good faith, or the lack of it, is in its last analysis a question of intention; but in ascertaining the intention by which one is actuated on a given occasion, we are necessarily controlled by the evidence as to the conduct and outward acts by which alone the inward motive may, with safety, be determined. So it is that the honesty of intention, 'the honest lawful I intent,' which constitutes good faith implies a 'freedom from knowledge and circumstances which ought to put a person on inquiry,' and so it is that proof of such knowledge overcomes the presumption of good faith in which the courts always indulge in the absence of proof to the contrary." (*Leung Yee vs. Strong Machinery Co. and Williamson*, 37 Phil. 644, 651.)

The conveyance to Ruben Dayao being ineffective or void as against the heirs of Dionisio de los Santos, the said heirs must be deemed to be still the owners of the property subject only to the equitable mortgage in favor of Marcos Domingo.

As a last resort, the appellant invokes prescription. But there is no rule of law that the mortgagee or his assignee may, by prescription, acquire ownership over the property mortgaged if the mortgage is not redeemed within ten years. On the other hand, section 46 of the Land Registration Law provides that "no title to registered land in derogation to that of the registered owner shall be acquired by prescription or adverse possession." The prescription invoked by appellant is thus without legal basis.

Wherefore, the judgment appealed from is affirmed, with costs.

Paras, Feria, Bengzon, Tuason, Montemayor, and Bautista Angelo, JJ., concur.
Padilla, J., did not take part.

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