

[WITH RESOLUTION OF DECEMBER 29, 1962]*G.R. No. L-14938. January 28, 1961*

Ponente: GUTIERREZ DAVID, J.

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On May 10, 1948, Rosario Cruzado, for herself and as administratrix of the intestate estate of her deceased husband Pedro Cruzado in Special Proceedings No. 4959 of the Court of First Instance of Manila, obtained from the defunct Rehabilitation Finance Corporation (hereinafter referred to as the RFC) a loan in the amount of P11,000.00. To secure payment thereof, she mortgaged the land then covered by Transfer Certificate of Title No. 61358 issued in her name and that of her deceased husband. As she failed to pay certain installments on the loan, the mortgage was foreclosed and the RFC acquired the property for P11,000.00, subject to her rights as mortgagor to repurchase the same. On July 26, 1951, upon her application, the land was sold back to her conditionally for the amount of P14,269.03, payable in seven years.

About two years thereafter, or on February 13, 1953, Rosario Cruzado, as guardian of her minor children in Special Proceedings No. 14198 of the Court of First Instance of Manila, was authorized by the court to sell with the previous consent of the RFC the land in question together with the improvements thereon for a sum not less than P19,000. Pursuant to such authority and with the consent of the RFC, she sold to Pura L. Villanueva for P19,000.00 "all their rights, interest, title and dominion on and over the herein described parcel of land together with the existing improvements thereon, including one house and an annex thereon; free from all charges and encumbrances, with the exception of the sum of P11,009.52, plus stipulated interest thereon which the vendor is still presently obligated to the RFC and which the vendee herein now assumes to pay to the RFC under the same terms and conditions specified in that deed of sale dated July 26, 1951." Having paid in advance the sum of P1,500.00, Pura L. Villanueva, the vendee, in consideration of the aforesaid sale, executed in favor of the vendor Rosario Cruzado a promissory note dated March 9, 1953, undertaking to pay the balance of P17,500.00 in monthly installments. On April 22, 1953, she made an additional payment of P5,500.00 on the promissory note. She was, subsequently, able to secure in her name Transfer Certificate of Title No. 32526 covering the house and lot above referred to, and on July 10, 1953, she mortgaged the said property to Magdalena C. Barretto as security for a loan in the amount of P30,000.00.

As said Pura L. Villanueva had failed to pay the remaining installments on the unpaid balance of P12,000.00 on her promissory note for the sale of the property in question, a complaint for the recovery of the same from her and her husband was filed on September 21, 1953 by Rosario Cruzado in her own right and in her capacity as judicial guardian of her minor children. Pending trial of the case, a lien was constituted upon the property in the nature of a levy in attachment in favor of the Cruzados, said lien being annotated at the back of Transfer Certificate of Title No. 32526. After trial, decision was rendered ordering Pura Villanueva and her husband, jointly and severally, to pay Rosario Cruzado the sum of P12,000.00, with legal interest thereon from the date of the filing of the complaint until fully paid plus the sum of P1,500.00 as attorney's fees.

Pura Villanueva having, likewise, failed to pay her indebtedness of P30,000.00 to Magdalena C. Barretto, the

latter, jointly with her husband, instituted against the Villanueva spouses an action for foreclosure of mortgage, impleading Rosario Cruzado and her children as parties defendants. On November 11, 1956, decision was rendered in the case absolving the Cruzados from the complaint and sentencing the Villanuevas to pay the Barrettos, jointly and severally, the sum of P30,000.00, with interest thereon at the rate of 12% per annum from January 11, 1954, plus the sum of P4,000.00 as attorney's fees. Upon the finality of this decision, the Barrettos filed a motion for the issuance of a writ of execution which was granted by the lower court on July 31, 1958. On August 14, 1958, the Cruzados filed their "Vendor's Lien" in the amount of P12,000.00, plus legal interest, over the real property subject of the foreclosure suit, the said amount representing the unpaid balance of the purchase price of the said property. Giving due course to the lien, the court on August 18, 1958 ordered the same annotated in Transfer Certificate of Title No. 32526 of the Registry of Deeds of Manila, decreeing that should the realty in question be sold at public auction in the foreclosure proceedings, the Cruzados shall be credited with their pro-rata share in the proceeds thereof "pursuant to the provisions of Articles 2248 and 2249 of the new Civil Code in relation to Article 2242, paragraph 2 of the same Code." The Barrettos filed a motion for reconsideration on September 12, 1958, but on that same date, the sheriff of the City of Manila, acting in pursuance of the order of the court granting the writ of execution, sold at public auction the property in question. As highest bidder, the Barrettos themselves acquired the properties for the sum of P49,000.00.

On October 4, 1958, the Court of First Instance issued an order confirming the aforesaid sale and directing the Register of Deeds of the City of Manila to issue to the Barrettos the corresponding certificate of title, subject, however, to the order of August 18, 1958 concerning the vendor's lien. On the same date, the motion of the Barrettos seeking reconsideration of the order of the court giving due course to the said vendor's lien was denied. From this last order, the Barrettos spouses interposed the present appeal.

The appeal is devoid of merit.

In claiming that the decision of the Court of First Instance of Manila in Civil Case No. 20675—awarding the amount of P12,000.00 in favor of Rosario Cruzado and her minor children—cannot constitute a basis for the vendor's lien filed by the appellee Rosario Cruzado, appellants allege that the action in said civil case was merely to recover the balance of a promissory note. But while, apparently, the action was to recover the remaining obligation of promissor Pura Villanueva on the note, the fact remains that Rosario P. Cruzado as guardian of her minor children was an unpaid vendor of the realty in question, and the promissory note was, precisely, for the unpaid balance of the purchase price of the property bought by said Pura Villanueva.

Article 2242 of the new Civil Code enumerates the claims, mortgages and liens that constitute an encumbrance on specific immovable property, and among them are:

"(2) For the unpaid price of real property sold, upon the immovable sold"; and

"(5) Mortgage credits recorded in the Registry of Property."

Article 2249 of the same Code provides that "if there are two or more credits with respect to the same specific real property or real rights, they shall be satisfied pro-rata, after the payment of the taxes and assessments upon the immovable property of real rights.

Application of the above-quoted provisions to the case at bar would mean that the herein appellee Rosario Cruzado as an unpaid vendor of the property in question has the right to share pro-rata with the appellants the proceeds of the foreclosure sale.

The appellants, however, argue that inasmuch as the unpaid vendor's lien in this case was not registered, it should not prejudice the said appellants' registered rights over the property. There is nothing to this argument. Note must

be taken of the fact that article 2242 of the new Civil Code enumerating the preferred claims, mortgages and liens on immovables, specifically requires that—unlike the unpaid price of real property sold—mortgage credits, in order to be given preference, should be recorded in the Registry of Property. If the legislative intent was to impose the same requirement in the case of the vendors lien, or the unpaid price of real property sold, the lawmakers could have easily inserted the same qualification which now modifies the mortgage credits. The law, however, does not make any distinction between registered and unregistered vendor's lien, which only goes to show that any lien of that kind enjoys the preferred credit status.

Appellants also argue that to give the unrecorded vendor's lien the same standing as the registered mortgage credit would be to nullify the principle in land registration system that prior unrecorded interests cannot prejudice persons who subsequently acquire interests over the same property. The Land Registration Act itself, however, respects without reserve or qualification the paramount rights of alien holders on real property. Thus, section 70 of that Act provides that:

"Registered land, and ownership therein shall in all respects be subject to the same burdens and incidents attached by law to unregistered land. Nothing contained in this Act shall in any way be construed to relieve registered land or the owners thereof from any rights incident to the relation of husband and wife, or from liability to attachment on mesne process or levy on execution, or from liability to any lien of any description established by law on land and the buildings thereon, or the interest of the owners of such land or buildings, or to change the laws of descent, or the rights of partition between co-owners, joint tenants and other co-tenants, or the right to take the same by eminent domain, or to relieve such land from liability to be appropriated in any lawful manner for the payment of debts, or to change or affect in any other way any other rights or liabilities created by law and applicable to unregistered land, except as otherwise expressly provided in this Act or in the amendments thereof." (Italics supplied)

As to the point made that the articles of the Civil Code on concurrence and preference of credits are applicable only to the insolvent debtor, suffice it to say that nothing in the law shows any such limitation. If we are to interpret this portion of the Code as intended only for insolvency cases, then other creditor-debtor relationships where there are concurrence of credits would be left without any rules to govern them, and it would render purposeless the special laws on insolvency.

Premises considered, the order appealed from is hereby affirmed. Costs against the appellants.

Bengzon, Padilla, Bautista Angelo, Labrador, Paredes, and Dizon JJ., concur.

Concepcion, Reyes, J. B. L., and Barrera, JJ., concur in the result.

RESOLUTION

December 29, 1962

REYES, J.B.L., J.:

Appellants, spouses Barretto, have filed a motion vigorously urging, for reason to be discussed in the course of this resolution, that our decision of 28 January 1961 be reconsidered and set aside, and a new one entered declaring that their right as mortgagees remain superior to the unrecorded claim of herein appellee for the balance of the purchase price of her rights, title, and interest in the mortgaged property.

It will be recalled that, with Court authority Rosario Cruzado sold all her right, title, and interest and that of her children in the house and lot herein involved to Pura L. Villanueva for P19,000.00. The purchaser paid P1,500 in

advance, and executed promissory note for the balance of P17,500.00. However, the buyer could only pay P5,500 on account of the note, for which reason the vendor obtained judgment for the unpaid balance. In the meantime, the buyer Villanueva was able to secure a clean certificate of title (No. 32526), and mortgaged the property to appellant Magdalena C. Barretto, married to Jose G. Barretto, to secure a loan of P30,000.00, said mortgage having been duly recorded.

Pura Villanueva defaulted on the mortgage loan in favor of Barretto. The latter foreclosed the mortgage in her favor, obtained judgment, and upon its becoming final asked for execution on 31 July 1958. In 14 August 1958, Cruzado filed a motion for recognition of her "vendors lien" in the amount of P12,000.00, plus legal interest, involving Articles 2242, 2243 and 2249 of the new Civil Code. After hearing, the court below ordered the "lien" annotated on the back of Certificate of Title No. 32526, with the proviso that in case of sale under the foreclosure decree the vendor's lien and the mortgage credit of appellant Barretto should be paid pro rata from the proceeds. Our original decision affirmed this order of the Court of First Instance of Manila.

Appellants insist that:

- (1) The vendor's lien under Articles 2242 and 2243 of the new Civil Code of the Philippines, can only become effective in the event of insolvency of the vendee, which has not been proved to exist in the instant case; and
- (2) That the appellee Cruzado is not a true vendor of the foreclosed property.

We have given protracted and mature consideration to the facts and law of this case, and have reached the conclusion that our original decision must be reconsidered and set aside, for the following reasons:

- The previous decision failed to take fully into account the radical changes introduced by the Civil Code of the Philippines into the system of priorities among creditors ordained by the Civil Code of 1889.

Pursuant to the former Code, conflicts among creditors entitled to preference as to specific real property under Article 1923 were to be resolved according to an order of priorities established by Article 1927, whereby one class of creditors could exclude the creditors of lower order until the claims of the former were fully satisfied out of the proceeds of the sale of the real property subject of the preference, and could exhaust such proceeds if necessary.

Under the system of the Civil Code of the Philippines, however, only taxes enjoy a similar absolute preference. All the remaining thirteen classes of preferred creditors under Article 2242 enjoy no priority among themselves, but must be paid pro rata, i.e., in proportion to the amount of the respective credits. Thus, Article 2249 provides:

"if there are two or more credits with respect to specific real property or real rights, they shall be satisfied pro rata, after the payment of the taxes and assessments upon the immovable property or real right."

But in order to make this prorating fully effective, the preferred creditors enumerated in Nos. 2 to 14 of Article 2242 (or such of them as have credits outstanding) must necessarily be convened, and the import of their claims ascertained. It is thus apparent that the full application of Articles 2249 and 2242 demands that there must be first some proceeding where the claims of all the preferred creditors may be bindingly adjudicated, such as insolvency, the settlement of a decedent's estate under Rule 87 of the Rules of Court, or other liquidation proceedings of similar import.

This explains the rule of Article 2243 of the new Civil Code that—

"The claims or credits enumerated in the two preceding articles[1] shall be considered as mortgages or pledges of real or personal property of liens within the purview of legal provisions governing insolvency * * *." (Italics supplied);

and the rule is further clarified in the Report of the Code Commission, as follows:

"The question as to whether the Civil Code and the Insolvency Law can be harmonized is settled by this Article (2243). The preferences named in Articles 2261 and 2262 (now 2241 and 2242) are to be enforced in accordance with the insolvency law." (Italics supplied)

Thus, it becomes evident that one preferred creditor's third-party claim to the proceeds of a foreclosure sale (as in the case now before us) is not the proceeding contemplated by law for the enforcement of preferences under Article 2242, unless the claimant were enforcing a credit for taxes that enjoy absolute priority. If none of the claims is for taxes, a dispute between two creditors will not enable the Court to ascertain the pro rata dividend corresponding to each, because the rights of the other creditors likewise enjoying preference under Article 2242 can not be ascertained. Wherefore, the order of the Court of First Instance of Manila now appealed from, decreeing that the proceeds of the foreclosure sale be apportioned only between appellant and appellee is incorrect, and must be reversed.

In the absence of insolvency proceedings (or other equivalent general liquidation of the debtor's estate), the conflict between the parties (now before us) must be decided pursuant to the well established principle concerning registered lands: that a purchaser in good faith and for value (as the appellant concededly is) takes registered property free from liens and encumbrances other than statutory liens and those recorded in the certificate of title. There being no insolvency or liquidation, the claim of the appellee, as unpaid vendor, did not acquire the character and rank of a statutory lien co-equal to the mortgagee's recorded encumbrance, and must remain subordinate to the latter.

We are understandably loath (absent a clear precept of law so commanding) to adopt a rule that would undermine the faith and credit to be accorded to registered Torrens titles and nullify the beneficent objectives sought to be obtained by the Land Registration Act. No argument is needed to stress that if a person dealing with registered land were to be held to take it in every instance subject to all the fourteen preferred claims enumerated in Article 2242 of the new Civil Code, even if the existence and import thereof can not be ascertained from the records, all confidence in Torrens titles would be destroyed, and credit transactions on the faith of such titles would be hampered, if not prevented, with incalculable results. Loans on real estate security would become aleatory and risky transactions, for no prospective lender could accurately estimate the hidden liens on the property offered as security, unless he indulged in complicated, tedious investigations. The logical result might well be a contraction of credit to unforeseeable proportions that could lead to economic disaster.

Upon the other hand, it does not appear excessively burdensome to require the privileged creditors to cause their claims to be recorded in the books of the Register of Deeds should they desire to protect their rights even outside of insolvency liquidation proceedings.

- The close study of the facts disclosed by the records casts strong doubt on the proposition that appellees Cruzados should be regarded as unpaid vendors of the property (land, buildings and improvements) involved in the case at bar, so as to be entitled to preference under Article 2242. The record on appeal, specially the final decision of the Court of First Instance of Manila in the suit of the Cruzados against Villanueva, clearly establishes that after her husband's death, and with due court authority, Rosario Cruzado, for herself and as administratrix of her husband's estate, mortgaged the property to the Rehabilitation Finance Corporation (RFC) to secure repayment of a loan of P11,000, in installments, but that the debtor failed to pay some of the installments; wherefore the RFC, on 24 August 1949, foreclosed the mortgage, and acquired the property, subject to the debtor's right to redeem or repurchase the said property; and that on 25 September 1950, the RFC consolidated its ownership, and the certificate of title of the Cruzados was cancelled and a new certificate issued in the name of the RFC.

While on 26 July 1951 the RFC did execute a deed selling back the property to the erstwhile mortgagors and former owners Cruzados in installments, subject to the condition (among others) that the title to the property and its improvements "shall remain in the name of the Corporation (RFC) until after said purchase price, advances and interest shall have been fully paid" as of 27 September 1952, Cruzado had only paid a total of P1,360, and had defaulted on six monthly amortizations; for which reason the RFC rescinded the sale, and forfeited the payments made, in accordance with the terms of the contract of 26 July 1951.

It was only on 10 March 1953 that the Cruzados sold to Pura L. Villanueva all "their rights, title, interest and dominion on and over" the property, lot, house, and improvements for P19,000.00, the buyer undertaking to assume payment of the obligation to the RFC; and by resolution of 30 April 1953, the RFC approved "the transfer of the rights and interests of Rosario P. Cruzado and her children in their property herein above-described in favor of Pura L. Villanueva"; and on 7 May 1953 the RFC executed a deed of absolute sale of the property to said party, who had fully paid the price of P14,269.03. Thereupon, the spouses Villanueva obtained a new Transfer Certificate of Title No. 32526 in their name.

On 10 July 1953, the Villanuevas mortgaged the property to the spouses Barretto, appellants herein.

It is clear from the facts above-stated that ownership of the property had passed to the Rehabilitation Finance Corporation since 1950, when it consolidated its purchase at the foreclosure sale, and obtained a certificate of title in its corporate name. The subsequent contract of resale in favor of the Cruzados did not revest ownership in them, since they failed to comply with its terms and conditions, and the contract itself provided that the title should remain in the name of the RFC until the price was fully paid.

Therefore, when after defaulting in their payments due the resale contract with the RFC the appellants Cruzados sold to Villanueva "their rights, title, interest and dominion" to the property, they merely assigned whatever rights or claims they might still have thereto; the ownership of the property rested with the RFC. The sale from Cruzado to Villanueva, therefore, was not so much a sale of the land and its improvements as it was a quitclaim deed in favor of Villanueva. In law, the operative sale was that from the RFC to the latter, and it was the RFC that should be regarded as the true vendor of the property. At the most, the Cruzados transferred to Villanueva an option to acquire the property, but not the property itself, and their credit, therefore, can not legally constitute a vendor's lien on the corpus of that property that should stand on an equal footing with the mortgaged credit held by appellants Barretto.

In view of the foregoing, the previous decision of this Court, promulgated on 28 January 1961, is hereby reconsidered and set aside, and a new one shall be entered reversing the judgment appealed from and declaring the appellants Barrettos entitled to full satisfaction of their mortgaged credit out of the proceeds of the foreclosure sale in the hands of the Sheriff of the City of Manila. No costs.

Padilla, Bautista Angelo, Concepcion, Barrera, Paredes, Regala, and Makalintal, JJ., concur.

[1] Arts. 2241 (credits affecting specific personality) and 2242 (credits on realty).

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