

PHILIPPINE NATIONAL BANK, PETITIONER, VS. HON. COURT OF APPEALS (FIFTH DIVISION) & CHU KIM KIT REP-RESENTED BY CHU TONG U, RESPONDENTS.

G.R. No. L-43972. July 23, 1990

Ponente: GRINO-AQUINO, J.

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GRINO-AQUINO, J.:

This is a petition for review of the decision dated February 27, 1976 of the Court of Appeals, affirming the decision of the then Court of First Instance of Leyte, dated February 27, 1970 which declared as null and void Transfer Certificate of Title No. T-1439 in the name of Felisa Boyano, ordered its cancellation and the reinstatement of Transfer Certificate of Title No. T-1412 of the private respondent, Chu Kim Kit.

On September 6, 1968, Chu Kim Kit, represented by his uncle, Chu Tong U, filed in the Court of First Instance of Leyte against Felisa Boyano an action for cancellation of the latter's Certificate of Title No. T--1439. The complaint alleged that Chu Kim Kit, a Chinese national and son of defendant Boyano, is the absolute owner of a commercial lot and building on Rizal Avenue, Tacloban City, registered in his name under TCT No. T--1412 of the Registry of Deeds of Tacloban City; that in 1945, Chu Kim Kit went to mainland China; that he was prevented from returning to the Philippines when the Communists took over mainland China; that through letters, he requested Chu Tong U to take care of his aforementioned property; that although defendant Boyano was aware that her son was still alive, she executed an affidavit on May 21, 1963, alleging that he had died and adjudicating to herself, as his sole heir, the above-described property: that by means of said affidavit of adjudication, she was able to obtain Transfer Certificate of Title No. T-1439 in her name; that she thereafter mortgaged the property to the Philippine National Bank, Tacloban Branch, to secure a loan of P25,000; and that she is about to dispose of the property.

On October 11, 1968, the defendant filed her answer, admitting that Chu Kim Kit was still alive but she alleged that she signed the affidavit of adjudication without having read its contents, the same being written in English which she does not understand. As affirmative defense, she alleged that plaintiff Chu Tong U is not the real party in interest, being only an uncle of Chu Kim Kit and co-heir to his estate.

Lucy Perez and the Philippine National Bank, as mortgagees, were allowed by the trial court to intervene in the action.

On February 27, 1970, the trial court rendered a decision in favor of the plaintiff, the dispositive portion of which reads:

"WHEREFORE, judgment is rendered:

"(1) Declaring Transfer Certificate of Title No. T-1439 null and void and the Philippine National Bank, Tacloban Branch, now in possession of said title is required to surrender the same to the Register of Deeds for the Province of Leyte, and the said Register of Deeds is ordered to cancel the same.

"(2) After the cancellation of Transfer Certificate of Title No. T-1439, the Register of Deeds of Leyte is ordered to restore and/or reinstate Transfer Certificate of Title No. T-1412 in form and substance as it was before its cancellation, without encumbrance annotated therein except those that were appearing if any there was before the same was cancelled.

"(3) That the mortgages of the property described in said title in favor of the Philippine National Bank and Lucy Perez are declared null and void insofar as the property described in the reinstated Transfer Certificate of Title No. T--1412 is concerned, however, said mortgages are valid evidence of the existence of the debts of Felisa Boyano to the mortgagee, Philippine National Bank and Lucy Perez. Felisa Boyano remains liable to the Philippine National Bank and Lucy Perez for whatever indebtedness Felisa Boyano obtained from either creditor, Philippine National Bank and Lucy Perez.

"(4) Defendant Felisa Boyano is ordered to pay the costs." (pp. 33-34, Rollo.)

Both intervenors, Philippine National Bank and Lucy Perez, appealed the decision to the Court of Appeals.

On February 27, 1976, the Court of Appeals rendered judgment affirming the trial court's decision. It ruled that:

"The plaintiff is Chu Kim Kit, the real party in interest.

"There is no question that Chu Kim Kit is an innocent party. He has not committed any act to cause any damage to the intervenors.

"Granting, arguendo, that the intervenors are mortgagees in good faith, as between them and the innocent owner, the latter is entitled to first consideration (Mejia vs. Lazatin, et al., 6 Court of Appeals Reports, 266).

"The intervenors have a remedy. They can proceed against the defendant in a personal action for the recovery of the loans extended to her.

"The sum of P10,000.00 paid by the intervenor Lucy Perez to the intervenor Philippine National Bank is a personal obligation of the defendant and cannot be considered as a lien on the land in question which admittedly belongs to Chu Kim Kit." (pp. 36-37, Rollo.)

The PNB is now before us seeking a review of the Court of Appeals' decision on the grounds that it -

1. does not conform with the evidence; and
2. it is contrary to the applicable law and jurisprudence on the matter.

The petition is impressed with merit. Although the Supreme Court is not a trier of facts, it has the authority to review and reverse the factual findings of the lower courts if it finds that they do not conform to the evidence in the record (Ongsiako vs. Intermediate Appellate Court, 152 SCRA 627).

The records show that Chu Kim Kit entrusted his Transfer Certificate of Title No. T-1412 to his mother, Felisa Boyano, before he left for mainland China and allowed his mother to administer the property, and to enjoy its fruits in his absence. Those acts of his enabled Felisa Boyano to cause the cancellation of TCT No. T-1412 and to obtain TCT No. T-1439 in her name. That Felisa Boyano was administering his property may also have created the impression in the mind of third persons that she was the owner of the property and could dispose of it. It is plain to see that by his own acts of confidence in Felisa Boyano, the private respondent was partly to blame for the commission of the fraud against himself by his mother. As between him and the petitioner which was totally innocent and free from negligence or wrongdoing in the transaction, the latter is entitled to the protection of the law.

There is no question that the petitioner PNB is a mortgagee in good faith and for value. At the time the mortgage

was constituted on the property on October 30, 1963, it was covered by TCT No. T-1439 in the name of Felisa Boyano. The title carried no annotation, defect or flaw that would have aroused suspicion as to its authenticity. "The certificate of title was in the name of the mortgagor when the land was mortgaged to the PNB. Such being the case, petitioner PNB had the right to rely on what appeared on the certificate of title, and in the absence of anything to excite suspicion, it was under no obligation to look beyond the certificate and investigate the title of the mortgagor appearing on the face of the certificate." (Gonzales vs. Intermediate Appellate Court, 157 SCRA 587; Phil. Coop. Bank vs. Carandang, 139 SCRA 570; Penullar vs. PNB, 120 SCRA 171; Blanco vs. Esquiedo, 110 Phil. 494.)

The ruling of the trial court and the Court of Appeals that as the cancellation of TCT No. T-1412 was unauthorized and illegal, the issuance of TCT No. T-1439 in the name of Felisa Boyano was null and void and the mortgage in favor of the PNB was likewise null and void, contravenes existing jurisprudence on the matter. We agree with the petitioner's argument in its brief that:

"In accordance with the provisions and the underlying policies and intentions of the Land Registration Law, a Transfer Certificate of Title appearing in the name of Felisa Boyano although defeasible in the hands of Felisa Boyano is conclusive and indefeasible in the hands of the petitioner which is an innocent mortgagee for value. Thus, it has been held that:

'Although generally a forged or fraudulent deed is a nullity and conveys no title, however there are instances when such a fraudulent document may become the root of a valid title. One such instance is where the certificate of title was already transferred from the name of the true owner to the forger, and while it remained that way, the land was subsequently sold to an innocent purchaser. For then, the vendee had the right to rely upon what appeared in the certificate.

""Where there was nothing in the certificate of title to indicate any cloud or vice in the ownership of the property, or any encumbrance thereon, the purchaser is not required to explore further than what the Torrens Title upon its face indicates in quest for any hidden defect or inchoate right that may subsequently defeat his right thereto. If the rule were otherwise, the efficacy and conclusiveness of the certificate of title which the Torrens System seeks to insure would entirely be futile and nugatory.' (Fule vs. Legare, 7 SCRA 351)." (pp. 18-19, Petitioner's Brief, p. 87, Rollo.)

The following rulings of this Court are additionally persuasive:

"x x x where innocent third persons relying on the correctness of the certificate of title issued, acquire rights over the property, the court cannot disregard such rights and order the total cancellation of the certificate for that would impair public confidence in the certificate of title; otherwise everyone dealing with property registered under the torrens system would have to inquire in every instance as to whether the title had been regularly or irregularly issued by the court. Indeed, this is contrary to the evident purpose of the law. 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. Stated differently, an innocent purchaser for value relying on a torrens title issued is protected. A mortgagee has the right to rely on what appears in the certificate of title and, in the absence of anything to excite suspicion, he is under no obligation to look beyond the certificate and investigate the title of the mortgagor appearing on the face of said certificate." (Duran vs. IAC, 138 SCRA 489; Seno v. Mangubat, 156 SCRA 113.)

"x x x In the case at bar, private respondents, in good faith relied on the certificate of title in the name of Fe S. Duran and as aptly stated by respondent appellate court '(even on the supposition that the sale was void, the general rule that the direct result of a previous illegal contract cannot be valid on the theory that the spring cannot rise higher than its source) cannot apply here for we are confronted with the functionings of the Torrens System of Registration. The doctrine to follow is simple enough: a fraudulent or forged document of sale may

become the ROOT of a valid title if the certificate of title has already been transferred from the name of the true owner to the name of the forger or the name indicated by the forger.' " (Duran vs. IAC, supra.)

"It is very clear from section 55 of the Land Registration Act that although an original owner of a registered land may seek the annulment of a transfer thereof on the ground of fraud, such a remedy, however, is 'without prejudice to the rights of any innocent holder for value' of the certificate of title." (Medina v. Chanco, 117 SCRA 201.)

"x x x When a mortgagee relies upon a Torrens title and loans money in all good faith on the basis of the title standing in the name of the mortgagor, only thereafter to discover one defendant to be an alleged forger and the other defendant to have by his negligence or acquiescence made it possible for the fraud to transpire, as between two innocent persons, the mortgagee and one of the mortgagors, the latter who made the fraud possible by his act of confidence must bear the loss." (Blondeau, et al. vs. Nano, et al., 61 SCRA 625.)

"x x x We are convinced that the issue alone that petitioners herein are purchasers in good faith and for value sufficiently constitutes a bar to the complaint of private respondents and there being enough proof to that effect, respondent Judge should have dismissed the complaint of private respondents. What is more, We have read both the original and the amended complaints of the private respondents and We cannot discern in any of them any specific act indicating any participation of the petitioners in whatever fraud might have attended the original transaction between the parents of private respondents and J.Q. Wagner. (Medina vs. Chanco, 117 SCRA 201.)

"The right or lien of an innocent mortgagee for value upon the land mortgaged must be respected and protected, even if the mortgagor obtained his title through fraud. The remedy of the persons prejudiced is to bring an action for damages against those who caused the fraud, and if the latter are insolvent, an action against the Treasurer of the Philippines may be filed for recovery of damages against the Assurance Fund" (Blanco, et al. vs. Esquierdo, 110- Phil. 494).

WHEREFORE, the appealed decision is reversed and set aside. The complaint is dismissed. The real estate mortgages in favor of the Philippine National Bank and Lucy Perez are declared valid, legal and enforceable, without prejudice to the right of the property owner, Chu Kim Kit to exercise the mortgagor's right of redemption and to claim reimbursement with damages from the mortgagor, Felisa Boyano. Costs against the private respondent.

SO ORDERED.

Narvasa, (Chairman), Cruz, Gancayco, and Medialdea, JJ., concur.

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