

STATE INVESTMENT HOUSE INC., PETITIONER, VS. COURT OF APPEALS, ET AL., RESPONDENTS.

G.R. No. 115548. March 05, 1996

Ponente: FRANCISCO, J.

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FRANCISCO, J.:

The factual background of the case, aptly summarized in the decision of the Office of the President and cited by respondent Court of Appeals[1] in its assailed decision, and which we have verified to be supported by the record is herein reproduced as follows:

“The uncontroverted facts of the case as recited in the decision of the Office of the President are as follows:

‘Records show that, on October 15, 1969, Contract to Sell No. 36 was executed by the Spouses Canuto and Ma. Aranzazu Oreta, and the Solid Homes, Inc. (SOLID), involving a parcel of land identified as Block No. 8, Lot No. 1, Phase I of the Capitol Park Homes Subdivision, Quezon City, containing 511 square meters for a consideration of P39,347.00. Upon signing of the contract, the spouses Oreta made payment amounting to P7,869.40, with the agreement that the balance shall be payable in monthly installments of P45 1.70, at 12% interest per annum.

‘On November 4, 1976, SOLID executed several real estate mortgage contracts in favor of State Investment Homes, (sic) Inc. (STATE) over its subdivided parcels of land, one of which is the subject lot covered by Transfer Certificate of Title No. 209642.

‘For Failure of SOLID to comply with its mortgage obligations contract, STATE extra-judicially foreclosed the mortgaged properties including the subject lot on April 6, 1983, with the corresponding certificate of sale issued therefor to STATE annotated at the back of the titles covering the said properties on October 13, 1983.

‘On June 23, 1984, SOLID thru a Memorandum of Agreement negotiated for the deferment of consolidation of ownership over the foreclosed properties by committing to redeem the properties from STATE.

‘On August 15, 1988, the spouses filed a complaint before the Housing and Land Use Regulatory Board, HLRB, against the developer SOLID and STATE for failure on the part of SOLID “to execute the necessary absolute deed of sale as well as to deliver title to said property x x x in violation of the contract to sell x x x,” despite full payment of the purchase price as of January 7, 1981. In its Answer, SOLID, by way of alternative defense, alleged that the obligations under the Contract to Sell has become so difficult x x x the herein respondents be partially released from said obligation by substituting subject lot with another suitable residential lot from another subdivision which respondents own/operates.” Upon the other hand, STATE, to which the subject lot was mortgaged, averred that unless SOLID pays the redemption price of P125,1955.00, (sic) it has “a right to hold on and not release the foreclosed properties.”

‘On May 23, 1989, the Office of Appeals, Adjudication and Legal Affairs (OAALA) rendered a decision the decretal portion of which reads:

‘1. Ordering respondent, State Investment House, Inc. to execute a Deed of Conveyance of Lot 1, Block 8, in

Capital Park Homes Subdivision in favor of complainants and to deliver to the latter the corresponding certificate of title;

'2. Ordering respondent, Solid Homes, Inc. to pay State Investment House, Inc. that portion of its loan which corresponds to the value of the lot as collateral;

'3. Ordering respondent, Solid Homes, Inc. to pay to this Board the amount of Six Thousand Pesos (P6,000.00) as administrative fine in accordance with Section 25 in relation to Section 38 of P.D. 957.

"Both the STATE and SOLID appealed to the Board of Commissioners, HLRB, which affirmed on June 5, 1990 the OAALA's decision (Annex "C" of the Petition; *ibid.*, p. 34). Again, both STATE and SOLID appealed the decision of the Board of Commissioners, HLRB, to the Office of the President which dismissed the twin appeals on February 26, 1993.

"Petitioner filed with the Supreme Court this petition for review of decision of the Office of the President where it was docketed as G.R. No. 109364. However, in a resolution dated May 13, 1993, the Supreme Court referred this case to this Court for proper disposition. On the other hand, SOLID does not appear to have joined herein petitioner in this petition for review." [2]

[Italics added.]

In a decision dated May 19, 1994, respondent court sustained the judgment of the Office of the President. Hence, this petition substantially anchored on these two alleged errors, namely: (1) error in ruling that private respondent spouses Oreta's unregistered rights over the subject property are superior to the registered mortgage rights of petitioner State Investment House, Inc. (STATE); and (2) error in not applying the settled rule that persons dealing with property covered by torrens certificate of title are not required to go beyond what appears on the face of the title.

At the outset, we note that herein petitioner argues more extensively on the second assigned issue, than on the first. In fact, petitioner admits the superior rights of respondents-spouses Oreta over the subject property as it did not pray for the nullification of the contract between respondents-spouses and SOLID, but instead asked for the payment of the release value of the property in question, plus interest, attorney's fees and costs of suit against SOLID or, in case of the latter's inability to pay, against respondents-spouses before it can be required to release the title of the subject property in favor of the respondent spouses.[3] And even if we were to pass upon the first assigned error, we find respondent court's ruling on the matter to be well-founded. STATE's registered mortgage right over the property is inferior to that of respondents-spouses' unregistered right. The unrecorded sale between respondents-spouses and SOLID is preferred for the reason that if the original owner (SOLID, in this case) had parted with his ownership of the thing sold then he no longer had ownership and free disposal of that thing so as to be able to mortgage it again.[4] Registration of the mortgage is of no moment since it is understood to be without prejudice to the better right of third parties.[5]

Anent the second issue, petitioner asserts that a purchaser or mortgagee of land/s covered under the Torrens System "is not required to do more than rely upon the certificate of title [for] it is enough that the [purchaser or mortgagee] examines the pertinent certificate of title [without] need [of] look[ing] beyond such title." [6]

As a general rule, where there is 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. This rule, however, admits of an exception as where the purchaser or mortgagee, has knowledge of a defect or lack of title in his vendor, or that he was aware of sufficient facts to induce a reasonably prudent man to inquire into the status of the title of the property in litigation.[7] In this case, petitioner was well aware that it was

dealing with SOLID, a business entity engaged in the business of selling subdivision lots. In fact, the OAALA found that “at the time the lot was mortgaged, respondent State Investment House, Inc., [now petitioner] had been aware of the lot’s location and that said lot formed part of Capital Park/Homes Subdivision.”[8] In *Sunshine Finance and investment Corp. v. Intermediate Appellate Court*,[9] the Court, noting petitioner therein to be a financing corporation, deviated from the general rule that a purchaser or mortgagee of a land is not required to look further than what appears on the face of the Torrens Title. Thus:

“Nevertheless, we have to deviate from the general rule because of the failure of the petitioner in this case to take the necessary precautions to ascertain if there was any flaw in the title of the Nolascos and to examine the condition of the property they sought to mortgage. The petitioner is an investment and financing corporation. We presume it is experienced in its business. Ascertainment of the status and condition of properties offered to it as security for the loans it extends must be a standard and indispensable part of its operations. Surely, it cannot simply rely on an examination of a Torrens certificate to determine what the subject property looks like as its condition is not apparent in the document. The land might be in a depressed area. There might be squatters on it. It might be easily inundated. It might be an interior lot, without convenient access. These and other similar factors determine the value of the property and so should be of practical concern to the petitioner.

xxx xxx xxx

“Our conclusion might have been different if the mortgagee were an ordinary individual or company without the expertise of the petitioner in the mortgage and sale of registered land or if the land mortgaged were some distance from the mortgagee and could not be conveniently inspected. But there were no such impediments in this case. The facilities of the petitioner were not so limited as to prevent it from making a more careful examination of the land to assure itself that there were no unauthorized persons in possession.”[10]

[Emphasis supplied.]

The above-enunciated rule should apply in this case as petitioner admits of being a financing institution.[11] We take judicial notice of the uniform practice of financing institutions to investigate, examine and assess the real property offered as security for any loan application especially where, as in this case, the subject property is a subdivision lot located at Quezon City, M.M. It is a settled rule that a purchaser or mortgagee cannot close its 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 or mortgagor.[12] Petitioner’s constructive knowledge of the defect in the title of the subject property, or lack of such knowledge due to its negligence, takes the place of registration of the rights of respondents-spouses. Respondent court thus correctly ruled that petitioner was not a purchaser or mortgagee in good faith; hence petitioner can not solely rely on what merely appears on the face of the Torrens Title.

ACCORDINGLY, finding no reversible error in the assailed judgment, the same is hereby **AFFIRMED**

SO ORDERED.

Narvasa, C.J. (Chairman), Davide, Jr., Melo, and Panganiban, JJ., concur.

[1] Fifth Division: Buena, J., Chairman; Rasul, Mabutas, JJ., Members.

[2] Decision of the Court of Appeals, pp. 1-4; Rollo, pp. 24-27.

[3] Petition, pp. 18-19; Rollo, pp. 19-20.

[4] *Reyes, et al. v. De Leon*, 126 Phil. 710.

[5] Id., citing *Rivera v. Moran*, 48 Phil. 836.

[6] Petition, p. 9; Rollo, p. 10, citing *Reynes v. Barrera*, 68 Phil. 656, 658; *W.H. Anderson & Co. v. Garcia*, 64 Phil. 506, 515; *Cangas and Basco v. Tan Chuan Leong*, 110 Phil. 168, 171; *Roxas v. Dinglasan*, 28 SCRA 430 434.

[7] *Capitol Subdivision v. Province of Negros Occidental*, 7 SCRA 60, 70; *Mahacop, Jr. v. Cangino*, 1 SCRA 572; *Leung Yee v. F.L. Strong Machinery Co. and Williamson*, 37 Phil. 644; *Philippine National Bank v. Court of Appeals*, 153 SCRA 453,442; *Gonzales v. Intermediate Appellate Court*, 157 SCRA 587, 595.

[8] OAALA Decision, p. 3; Rollo, p. 34.

[9] 203 SCRA 210.

[10] Id. at pp. 216-217.

[11] Petition, p.15; Rollo, p. 16.

[12] *Crisostomo v. Court of Appeals*, 197 SCRA 833, 840.

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