

LEUNG YEE, PLAINTIFF AND APPELLANT, VS. FRANK L. STRONG MACHINERY COMPANY AND J. G. WILLIAMSON, DEFENDANTS AND APPELLEES.*G.R. No. 11658. February 15, 1918*

Ponente: CARSON, J.

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The "Compañia Agricola Filipina" bought a considerable quantity of rice-cleaning machinery from the defendant machinery company, and executed a chattel mortgage thereon to secure payment of the purchase price. It included in the mortgage deed the building of strong materials in which the machinery was installed, without any reference to the land on which it stood. The indebtedness secured by this instrument not having been paid when it fell due, the mortgaged property was sold by the sheriff, in pursuance of the terms of the mortgage instrument, and was bought in by the machinery company. The mortgage was registered in the chattel mortgage registry, and the sale of the property to the machinery company in satisfaction of the mortgage was annotated in the same registry on December 29, 1913.

A few weeks thereafter, on or about the 14th of January, 1914, the "Compañia Agricola Filipina" executed a deed of sale of the land upon which the building stood to the machinery company, but this deed of sale, although executed in a public document, was not registered. This deed makes no reference to the building erected on the land and would appear to have been executed for the purpose of curing any defects which might be found to exist in the machinery company's title to the building under the sheriff's certificate of sale. The machinery company went into possession of the building at or about the time when this sale took place, that is to say, the month of December, 1913, and it has continued in possession ever since.

At or about the time when the chattel mortgage was executed in favor of the machinery company, the mortgagor, the "Compañia Agricola Filipina" executed another mortgage to the plaintiff upon the building, separate and apart from the land on which it stood, to secure payment of the balance of its indebtedness to the plaintiff under a contract for the construction of the building. Upon the failure of the mortgagor to pay the amount of the indebtedness secured by the mortgage, the plaintiff secured judgment for that amount, levied execution upon the building, bought it in at the sheriff's sale on or about the 18th of December, 1914, and had the sheriff's certificate of sale duly registered in the land registry of the Province of Cavite.

At the time when the execution was levied upon the building, the defendant machinery company, which was in possession, filed with the sheriff a sworn statement setting up its claim of title and demanding the release of the property from the levy. Thereafter, upon demand of the sheriff, the plaintiff executed an indemnity bond in favor of the sheriff in the sum of P12,000, in reliance upon which the sheriff sold the property at public auction to the plaintiff, who was the highest bidder at the sheriff's sale.

This action was instituted by the plaintiff to recover possession of the building from the machinery company.

The trial judge, relying upon the terms of article 1473 of the Civil Code, gave judgment in favor of the machinery

company, on the ground that the company had its title to the building registered prior to the date of registry of the plaintiff's certificate.

Article 1473 of the Civil Code is as follows:

"If the same thing should have been sold to different vendees, the ownership shall be transferred to the person who may have first taken possession thereof in good faith, if it should be personal property.

"Should it be real property, it shall belong to the person acquiring it who first recorded it in the registry.

"Should there be no entry, the property shall belong to the person who first took possession of it in good faith, and, in the absence thereof, to the person who presents the oldest title, provided there is good faith."

The registry here referred to is of course the registry of real property, and it must be apparent that the annotation or inscription of a deed of sale of real property in a chattel mortgage registry cannot be given the legal effect of an inscription in the registry of real property. By its express terms, the Chattel Mortgage Law contemplates and makes provision for mortgages of personal property; and the sole purpose and object of the chattel mortgage registry is to provide for the registry of "Chattel mortgages," that is to say, mortgages of personal property executed in the manner and form prescribed in the statute. The building of strong materials in which the rice-cleaning machinery was installed by the "Compania Agricola Filipina" was real property, and the mere fact that the parties seem to have dealt with it separate and apart from the land on which it stood in no wise changed its character as real property. It follows that neither the original registry in the chattel mortgage registry of the instrument purporting to be a chattel mortgage of the building and the machinery installed therein, nor the annotation in that registry of the sale of the mortgaged property, had any effect whatever so far as the building was concerned.

We conclude that the ruling in favor of the machinery company cannot be sustained on the ground assigned by the trial judge. We are of opinion, however, that the judgment must be sustained on the ground that the agreed statement of facts in the court below discloses that neither the purchase of the building by plaintiff nor his inscription of the sheriff's certificate of sale in his favor was made in good faith, and that the machinery company must be held to be the owner of the property under the third paragraph of the above cited article of the code, it appearing that the company first took possession of the property; and further, that the building and the land were sold to the machinery company long prior to the date of the sheriff's sale to the plaintiff.

It has been suggested that since the provisions of article 1473 of the Civil Code require "good faith," in express terms, in relation to "possession" and "title," but contain no express requirement as to "good faith" in relation to the "inscription" of the property in the registry, it must be presumed that good faith is not an essential requisite of registration in order that it may have the effect contemplated in this article. We cannot agree with this contention. It could not have been the intention of the legislator to base the preferential right secured under this article of the code upon an inscription of title in bad faith. Such an interpretation placed upon the language of this section would open wide the door to fraud and collusion. The public records cannot be converted into instruments of fraud and oppression by one who secures an inscription therein in bad faith. The force and effect given by law to an inscription in a public record presupposes the good faith of him who enters such inscription; and rights created by statute, which are predicated upon an inscription in a public registry, do not and cannot accrue under an inscription "in bad faith," to the benefit of the person who thus makes the inscription.

Construing the second paragraph of this article of the code, the supreme court of Spain held in its sentencia of the 13th of May, 1908, that:

"This rule is always to be understood on the basis of the good faith mentioned in the first paragraph; therefore, it

having been found that the second purchasers who record their purchase had knowledge of the previous sale, the question is to be decided in accordance with the following paragraph." (Note 2, art. 1473, Civ. Code, Medina and Marañon [1911] edition.)

"Although article 1473, in its second paragraph, provides that the title of conveyance of ownership of the real property that is first recorded in the registry shall have preference, this provision must always be understood on the basis of the good faith mentioned in the first paragraph; the legislator could not have wished to strike it out and to sanction bad faith, just to comply with a mere formality which, in given cases, does not obtain even in real disputes between third persons." (Note 2, art. 1473, Civ. Code, issued by the publishers of the La Revista de los Tribunales, 13th edition.)

The agreed statement of facts clearly discloses that the plaintiff, when he bought the building at the sheriff's sale and inscribed his title in the land registry, was duly notified that the machinery company had bought the building from plaintiff's judgment debtor; that it had gone into possession long prior to the sheriff's sale; and that it was in possession at the time when the sheriff executed his levy. The execution of an indemnity bond by the plaintiff in favor of the sheriff, after the machinery company had filed its sworn claim of ownership, leaves no room for doubt in this regard. Having bought the building at the sheriff's sale with full knowledge that at the time of the levy and sale the building had already been sold to the machinery company by the judgment debtor, the plaintiff cannot be said to have been a purchaser in good faith; and of course, the subsequent inscription of the sheriff's certificate of title must be held to have been tainted with the same defect.

Perhaps we should make it clear that in holding that the inscription of the sheriff's certificate of sale to the plaintiff was not made in good faith, we should not be understood as questioning, in any way, the good faith and genuineness of plaintiff's claim against the "Compania Agricola Filipina." The truth is that both the plaintiff and the defendant company appear to have had just and righteous claims against their common debtor. No criticism can properly be made of the exercise of the utmost diligence by the plaintiff in asserting and exercising his right to recover the amount of his claim from the estate of the common debtor. We are strongly inclined to believe that in procuring the levy of execution upon the factory building and in buying it at the sheriff's sale, he conceived that he was doing no more than he had a right to do under all the circumstances, and it is highly possible and even probable that he thought at that time that he would be able to maintain his position in a contest with the machinery company. There was no collusion on his part with the common debtor, and no thought of the perpetration of a fraud upon the rights of another, in the ordinary sense of the word. He may have hoped, and doubtless he did hope, that the title of the machinery company would not stand the test of an action in a court of law; and if later developments had confirmed his unfounded hopes, no one could question the legality or the propriety of the course he adopted.

But it appearing that he had full knowledge of the machinery company's claim of ownership when he executed the indemnity bond and bought in the property at the sheriff's sale, and it appearing further that the machinery company's claim of ownership was well founded, he cannot be said to have been an innocent purchaser for value. He took the risk and must stand by the consequences; and it is in this sense that we find that he was not a purchaser in good faith.

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 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. "Good faith, or the want of it, is not a visible, tangible fact that can be seen or touched, but rather a state or condition of mind which can only be judged of by actual or fancied tokens or signs." (Wilder vs. Gilman, 55 Vt., 504, 505; Cf. Cardenas vs. Miller, 108 Cal., 250; Breaux-Renoudet, Cypress Lumber Co. vs. Shadel, 52 La. Ann., 2094-2098; Pinkerton Bros. Co. vs. Bromley, 119 Mich., 8, 10, 17.)

We conclude that upon the grounds herein set forth the disposing part of the decision and judgment entered in the court below should be affirmed with the costs of this instance against the appellant. So ordered.

Arellano, C. J., Johnson, Araullo, Street, and Malcolm, JJ., concur.

Torres, Avanceña, and Fisher, JJ., did not take part.

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