FLORDELIZA H. CABUHAT, PETITIONER, VS. THE HONORABLE COURT OF APPEALS, SPECIAL FIFTH DIVISION AND MERCEDES H. AREDE, RESPONDENTS.

G.R. No. 122425. September 28, 2001

Ponente: YNARES-SANTIAGO, J.

Read online (full-text search, related cases, audio case brief): https://batas.org/library/g-r-no-122425/

YNARES-SANTIAGO, J.:

Before this Court is a petition for review on certiorari of the Decision of the Court of Appeals in CA-G.R. CV No. 32910 dated January 9, 1995, disposing as follows:

> WHEREFORE, in view of the foregoing, the instant appeal is hereby GRANTED. The portion of the lower court's decision upholding appellee's mortgage lien is hereby REVERSED and SET ASIDE.
>
> SO ORDERED.[1]

The undisputed facts as found by the respondent Court of Appeals:

> Mary Ann Arede was barely three days old when appellant Mercedes Arede informally adopted her as the latter's own daughter. In December, 1972, appellant purchased a parcel of land situated in Bagbag, Ligtong, Rosario, Cavite comprising an area of 1,313 square meters. The said land was registered by appellant in Mary Ann Arede's name and the corresponding title was issued by the Register of Deeds of Cavite on December 9, 1972 as Transfer Certificate of Title No. T-56225. According to appellant, the said title was always in her possession which she kept in a locked drawer in her residence.
>
> Upon reaching the age of majority and unknown to appellant, Mary Ann Arede obtained a reconstituted owner's duplicate of TCT No. T-56225 (Exhibit "D") thru the use of a falsified court order (Exhibit "B") supposedly issued by the Regional Trial Court of Cavite, Branch 17, on December 16, 1988, whereby the court purportedly directed the Register of Deeds of Cavite to issue another owner's duplicate copy of TCT No. T-56225, which Mary Ann Arede claimed to have lost. Using this reconstituted title, Mary Ann Arede mortgaged the land to the Rural Bank of Noveleta, Cavite on February 28, 1989. Upon release of the mortgage, the land was again mortgaged by Mary Ann Arede on May 16, 1990, this time to appellee Flordeliza Cabuhat for the amount of P300,000.00, which mortgage was registered by appellee on the following day at the Register of Deeds of Cavite.
>
> It appeared however that prior to the second mortgage on May 16, 1990, the subject lot was sold by Mary Ann Arede to appellant Mercedes Arede in consideration of the sum of P100,000.00 as evidenced by a Deed of Sale dated January 17, 1990 (Annex E, Record, p. 17). Unfortunately, this sale was not registered by appellant.
>
> Hence, upon knowledge of the mortgage to appellee Cabuhat, appellant was prompted to commence the instant suit for annulment of title.
>
> Upon her failure to file answer within the reglementary period, defendant Mary Ann Arede was declared in default. Thereafter, trial ensued and judgment was rendered by the lower court on April 26, 1991, ordering as follows:

"WHEREFORE, the Court hereby decrees that:

1) the owner's duplicate copy of T.C.T. No. T-56225, with Serial No. 004470 of the Register of Deeds of the Province of Cavite, is null and void and, accordingly, the Register of Deeds is directed to cancel the same from their files and the owner's duplicate copy thereof with Serial No. SN2033078 is hereby revived;

2) the mortgage lien in favor of defendant Flordeliza H. Cabuhat is valid and binding;

3) defendant Mary Ann Arede is ordered to pay plaintiff Mercedes Arede the following amounts:

a) the sum of FIFTY THOUSAND (P50,000.00) PESOS as moral damages;

b) the sum of FIFTEEN THOUSAND (P15,000.00) PESOS, plus P500.00 per appearance of counsel, as attorney's fees; and

c) TWO THOUSAND (P2,000.00) PESOS as litigation expenses.

Cost against defendant Mary Ann Arede.

SO ORDERED.[2]

Mercedes appealed to the Court of Appeals, seeking a reversal of the portion of the above-quoted decision upholding the mortgage lien in Flordeliza's favor. Mercedes argued that the mortgage lien was invalid because: (1) the registration was procured through the presentation of a forged owner's duplicate certificate of title, in violation of Section 53 of Presidential Decree 1529; and (2) the mortgage constituted when Mary Ann was no longer the absolute owner of the subject property contravened Article 2085 of the New Civil Code.

While the appeal was pending, Mercedes passed away, leaving no legal representative or heirs qualified to take her place. Nevertheless, the Court of Appeals proceeded to resolve the case without substituting the appellant, it appearing that no prejudice would be caused to the parties.

On January 9, 1995, the Court of Appeals rendered judgment granting the late Mercedes' appeal, reversing and setting aside the trial court's decision upholding the mortgage lien in favor of Flordeliza.

Hence, this petition for review.

Petitioner contends that the Court of Appeals committed grave abuse of discretion when it disregarded the priority of registered rights over real property. She also assails the appellate court's conclusion that the real estate mortgage in her favor is null and void.

After a careful and thorough disquisition of the established facts and issues raised in the instant controversy, we find merit in this petition.

The Court of Appeals, in reversing the decision of the trial court, relied solely on the provisions of Article 2085 of the New Civil Code, which states, in part, that for a mortgage to be valid, the persons constituting the pledge or mortgage should have the free disposal of their property, and in the absence thereof, they should be legally authorized for the purpose. It also cited the 1954 case of Parqui v. PNB,[3] wherein the mortgage was declared null and void since the registration thereof was procured by the presentation of a forged deed.

However, it is well-settled that even if the procurement of a certificate of title was tainted with fraud and misrepresentation, such defective title may be the source of a completely legal and valid title in the hands of an innocent purchaser for value.[4] Thus:

> Where innocent third persons, relying on the correctness of the certificate of title thus issued, acquire rights over the property the court cannot disregard such rights and order the total cancellation of the certificate. The

Bar review courses, mock exams and a study planner that keeps you on pace - batas.org

> effect of such an outright cancellation would be to impair public confidence in the certificate of title, for everyone dealing with property registered under the Torrens system would have to inquire in every instance whether the title has been regularly or irregularly issued. 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.[5]

Just as an innocent purchaser for value may rely on what appears in the certificate of title, a mortgagee has the right to rely on what appears in the title presented to him, 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 the said certificate.[6] Furthermore, it is a well-entrenched legal principle that when an innocent mortgagee who relies upon the correctness of a certificate of title consequently acquires rights over the mortgaged property, the courts cannot disregard such rights.[7]

Article 2085 of the Civil Code, which requires that the mortgagor must have free disposal of the property, or at least have legal authority to do so, admits of exceptions. In quite a number of instances, this Court has ruled that the said provision does not apply where the property involved is registered under the Torrens System.[8] Only recently, this Court declared:

> The Torrens system was adopted in this country because it was believed to be the most effective measure to guarantee the integrity of land titles and to protect their indefeasibility once the claim of ownership is established and recognized. If a person purchases a piece of land on the assurance that the seller's title thereto is valid, he should not run the risk of being told later that his acquisition was ineffectual after all. This would not only be unfair to him. What is worse is that if this were permitted, public confidence in the system would be eroded and land transactions would have to be attended by complicated and not necessarily conclusive investigations and proof of ownership. The further consequence would be that land conflicts could be even more numerous and complex than they are now and possibly also more abrasive, if not even violent. The Government, recognizing the worthy purposes of the Torrens system, should be the first to accept the validity of titles issued thereunder once the conditions laid down by the law are satisfied.[9]

Setting aside the general rule and applying instead the exception is not without legal or statutory basis. In the case of Medina v. Chanco,[10] we held:

> 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. (Underscoring ours)

Then in Penullar v. PNB,[11] this Court resolved a similar issue ruling that Section 38 of the Land Registration Act places an innocent mortgagee for value under the mantle of protection accorded to innocent purchasers for value.

Furthermore, Section 39 of Act No. 496 provides that every person receiving a certificate of title in pursuance of a decree of registration, and every subsequent purchaser (or mortgagee) of registered land who takes a certificate of title for value in good faith, shall hold the same free of all encumbrance except those noted on said certificate.[12] In Sunshine Finance and Investment Corp. v. IAC,[13] we held:

> The court does not intend to disregard the long line of its decisions holding that "where innocent third persons, relying on the correctness of the certificate of title thus issued, acquire rights over the property, the court cannot disregard such rights and order the total cancellation of the certificate." It is true that the effect of such cancellation would be to impair public confidence in the certificate of title, for everyone dealing with property registered under the Torrens System would have to inquire in every instance as to whether the title has been

> regularly or irregularly issued. This is contrary to the evident purpose of Act 496, Sec. 39, as "innocent purchasers for value" or any equivalent phrase shall be deemed under Section 38 of that law to include an innocent lessee, mortgagee or other encumbrances for value. A mortgagee has the right to rely on what appears in the certificate of title, and in the absence of anything to excite suspicion, is under no obligation to look beyond the certificate and investigate the title of the mortgagor appearing on the face of the certificate. (Underscoring ours)

On the basis of these statutory provisions, this Court has uniformly held that when a mortgagee relies upon what appears on the face of a Torrens title and loans money in all good faith on the basis of the title in the name of the mortgagor, only thereafter to learn that the latter's title was defective, being thus an innocent mortgagee for value, his or her right or lien upon the land mortgaged must be respected and protected, even if the mortgagor obtained her title thereto through fraud.[14]

In the case at bar, there is no doubt that petitioner was an innocent mortgagee for value. When Mary Ann mortgaged the subject property, she presented to petitioner Flordeliza an owner's duplicate certificate of title that had been issued by the Register of Deeds. The title was neither forged nor fake. Petitioner had every right to rely on the said title which showed on its face that Mary Ann was the registered owner. There was no reason to suspect that Mary Ann's ownership was defective. Besides, even if there had been a cloud of doubt, Flordeliza would have found upon verification with the Register of Deeds that Mary Ann was the titled owner and that the original title on file with the said office was free from any lien or encumbrance, and that no adverse claim of ownership was annotated thereon.

Petitioner's reliance on the clean title of Mary Ann was reinforced by the fact that the latter had previously mortgaged the same property to a bank which accepted the property as collateral on the strength of the same owner's duplicate copy of the title presented by Mary Ann. Certainly, petitioner Flordeliza cannot be expected or obliged to inquire whether the said owner's duplicate copy presented to her was regularly or irregularly issued, when by its very appearance there was no reason to doubt its validity. Where there is nothing in the certificate of title that would indicate any cloud or vice in the ownership of the property, or any encumbrance thereon, the mortgagee is not required to explore further than what the certificate of title on its face indicates in search of any hidden defect or inchoate right that may thereafter defeat her right thereto.[15]

In fact, respondent never questioned petitioner Flordeliza's good faith in accepting the subject property as security for the loan and in having the mortgage registered and annotated on the title. Neither was there an allegation that the petitioner was a party or even privy to Mary Ann's alleged fraudulent acts to secure another owner's duplicate copy. There is, therefore, no reason to doubt petitioner's good faith in entering into the mortgage transaction with Mary Ann.

The record shows that petitioner loaned the amount of P300,000.00 to Mary Ann, proving that not only was she an innocent mortgagee for value, but also one who in good faith relied on the clean title of Mary Ann. In accepting such a mortgage, petitioner was not required to make further investigation of the title presented to her to bind the property being given as security for the loan.[16]

In fine, the prevailing jurisprudence is that a mortgagee has a right to rely in good faith on the certificate of title of the mortgagor of the property given as security and in the absence of any sign that might arouse suspicion, has no obligation to undertake further investigation. Hence, even if the mortgagor is not the rightful owner of, or does not have a valid title to, the mortgaged property, the mortgagee in good faith is nonetheless entitled to protection.[17]

We are not unmindful of the fact that both petitioner and respondent are innocent parties who have been forced to litigate due to the duplicitous acts of Mary Ann, who has not even bothered to make an appearance or participate

throughout the litigation of this case. Nevertheless, there is an equitable maxim that between two innocent persons, the one who made it possible for the wrong to be done should be the one to bear the resulting loss.[18] It cannot be denied that Mercedes, in her failure or neglect to register the sale in her favor made it possible for Mary Ann to mortgage the subject property to the petitioner. Having failed to properly safeguard her own rights, she cannot ask the courts to come to her rescue, when to do so would be at the expense of an innocent mortgagee in good faith. The law and jurisprudence dictate that petitioner's right as a registered mortgagee in good faith and for value is better deserving of protection.

Clearly, then, the Court of Appeals erred in invalidating petitioner's mortgage lien over the subject property.

WHEREFORE, in view of the foregoing, the instant petition for review on certiorari is GRANTED. The Decision of the Court of Appeals in CA-G.R. CV No. 32910 is SET ASIDE, and the Decision of the Regional Trial Court of Cavite City, Branch 16, in Civil Case No. N-5386 is REINSTATED in all aspects.

No pronouncement as to costs.

SO ORDERED.

Davide, Jr., C.J., (Chairman), Puno, Kapunan, and Pardo, JJ., concur.

---

[1] Court of Appeals Decision, p. 4; Rollo, p. 51.

[2] RTC Decision, Records, pp. 103-110.

[3] 96 Phil. 157, 161 (1954).

[4] Republic v. Court of Appeals, 306 SCRA 81, 88 (1999).

[5] Republic v. Court of Appeals, supra, pp. 88-89.

[6] Duran v. IAC, 138 SCRA 489, 495 (1985).

[7] Hemedes v. Court of Appeals, 316 SCRA 347, 373 (1999).

[8] Duran v. IAC, supra.

[9] Traders Royal Bank v. Court of Appeals, 315 SCRA 190, 202 (1999), citing Tenio-Obsequio v. Court of Appeals, 230 SCRA 550, 557 (1994).

[10] 117 SCRA 201, 205 (1982).

[11] 120 SCRA 171, 180 (1983), citing Blanco, et al. v. Esquierdo, et al., 110 Phil. 606 (1961).

[12] Director of Lands v. Abache, 73 Phil. 606 (1941-42).

[13] 203 SCRA 210, 215-216 (1991).

[14] Penullar v. PNB, supra; PNB v. Court of Appeals, 187 SCRA 735, 742 (1990).

[15] State Investment House, Inc. v. Court of Appeals, 254 SCRA 368, 373 (1996).

[16] Planters Development Bank v. Court of Appeals, 197 SCRA 698, 702 (1991).

[17] Cebu International Finance Corp. v. Court of Appeals, 268 SCRA 178, 189 (1997).

Bar review courses, mock exams and a study planner that keeps you on pace - batas.org

[18] Bacaltos Coal Mines v. Court of Appeals, 245 SCRA 460, 475 (1995); Traders Royal Bank v. Court of Appeals, supra, pp. 210-211.

ABOUT BATAS.ORG

Study smarter at BATAS.org

The Philippine bar review and law-school companion built around how your brain actually remembers.

The complete Philippine law library - free for everyone.

More than 100,000 Supreme Court decisions, Republic Acts, and executive issuances - full-text searchable, browsable by category and year, and always free. No paywall, no login. This PDF came from it.

Audio case-brief lectures.

Any decision becomes a podcast-style lecture - facts, issues, ruling, and doctrine - with read-along highlighting and a hands-free presentation mode. Study while commuting, working out, or resting your eyes.

Bar review built on the science of memory.

Complete, sequenced courses for all eight bar subjects, narrated like podcasts and reinforced with retrieval practice and spaced review - the study techniques with the strongest evidence behind them.

The full law-school curriculum.

One subscription unlocks the entire J.D. curriculum - every subject, every lesson, with your progress tracked down to the paragraph so you can pick up exactly where you left off, on any device.

Mock exams that tell you where you stand.

Timed multiple-choice exams graded instantly, with per-subject score breakdowns and focus suggestions that point you at your weakest topics first.

A study planner that keeps you on pace.

Set your schedule and BATAS tells you every day whether you are on track for bar day - and exactly which lesson to take next.

Start free at https://batas.org

The law library is free forever - and your first lesson is one click away.

The text of this document is an official public record and remains in the public domain. Formatting, presentation, and compilation © 2026 batas.org.

Downloaded free from the batas.org Law Library. Share it freely - the library is free for every law student, bar reviewee, and practitioner.