

NAAWAN COMMUNITY RURAL BANK INC., PETITIONER, VS. THE COURT OF APPEALS AND SPOUSES ALFREDO AND ANNABELLE LUMO, RESPONDENTS.

G.R. No. 128573. January 13, 2003

Ponente: CORONA, J.

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CORONA, J.:

Under the established principles of land registration, a person dealing with registered land may generally rely on the correctness of a certificate of title and the law will in no way oblige him to go beyond it to determine the legal status of the property.

Before us is a Petition for Review on Certiorari challenging the February 7, 1997 Decision[1] of the Court of Appeals in CA-G.R. CV No. 55149, which in turn affirmed the decision[2] of the Regional Trial Court of Misamis Oriental, Branch 18 as follows:

“WHEREFORE, the plaintiffs-spouses are adjudged the absolute owners and possessors of the properties in question (Lot 18583, under TCT No. T-50134, and all improvements thereon) and quieting title thereto as against any and all adverse claims of the defendant. Further, the sheriff’s certificate of sale, Exhibit 4; 4-A; Sheriff’s deed of final conveyance, Exhibit 5, 5-A; Tax Declarations No. 71211, Exhibit 7, and any and all instrument, record, claim, encumbrance or proceeding in favor of the defendant, as against the plaintiffs, and their predecessor-in-interest, which may be extant in the office of the Register of Deeds of Province of Misamis Oriental, and of Cagayan de Oro City, and in the City Assessor’s Office of Cagayan de Oro City, are declared as invalid and ineffective as against the plaintiffs’ title.

“The counterclaim is dismissed for lack of merit.

“SO ORDERED.”[3]

The facts of the case, as culled from the records, are as follows:

On April 30, 1988, a certain Guillermo Comayas offered to sell to private respondent-spouses Alfredo and Annabelle Lumo, a house and lot measuring 340 square meters located at Pinikitan, Camaman-an, Cagayan de Oro City.

Wanting to buy said house and lot, private respondents made inquiries at the Office of the Register of Deeds of Cagayan de Oro City where the property is located and the Bureau of Lands on the legal status of the vendor’s title. They found out that the property was mortgaged for P8,000 to a certain Mrs. Galupo and that the owner’s copy of the Certificate of Title to said property was in her possession.

Private respondents directed Guillermo Comayas to redeem the property from Galupo at their expense, giving the amount of P10,000 to Comayas for that purpose.

On May 30, 1988, a release of the adverse claim of Galupo was annotated on TCT No. T-41499 which covered

the subject property.

In the meantime, on May 17, 1988, even before the release of Galupo's adverse claim, private respondents and Guillermo Comayas, executed a deed of absolute sale. The subject property was allegedly sold for P125,000 but the deed of sale reflected the amount of only P30,000 which was the amount private respondents were ready to pay at the time of the execution of said deed, the balance payable by installment.

On June 9, 1988, the deed of absolute sale was registered and inscribed on TCT No. T-41499 and, on even date, TCT No. T-50134 was issued in favor of private respondents.

After obtaining their TCT, private respondents requested the issuance of a new tax declaration certificate in their names. However, they were surprised to learn from the City Assessor's Office that the property was also declared for tax purposes in the name of petitioner Naawan Community Rural Bank Inc. Records in the City Assessor's Office revealed that, for the lot covered by TCT No. T-50134, Alfredo Lumo's T/D # 83324 bore the note: "This lot is also declared in the name of Naawan Community Rural Bank Inc. under T/D # 71210".

Apparently, on February 7, 1983, Guillermo Comayas obtained a P15,000 loan from petitioner Bank using the subject property as security. At the time said contract of mortgage was entered into, the subject property was then an unregistered parcel of residential land, tax-declared in the name of a certain Sergio A. Balibay while the residential one-storey house was tax-declared in the name of Comayas.

Balibay executed a special power of attorney authorizing Comayas to borrow money and use the subject lot as security. But the Deed of Real Estate Mortgage and the Special Power of Attorney were recorded in the registration book of the Province of Misamis Oriental, not in the registration book of Cagayan de Oro City. It appears that, when the registration was made, there was only one Register of Deeds for the entire province of Misamis Oriental, including Cagayan de Oro City. It was only in 1985 when the Office of the Register of Deeds for Cagayan de Oro City was established separately from the Office of the Register of Deeds for the Province of Misamis Oriental.

For failure of Comayas to pay, the real estate mortgage was foreclosed and the subject property sold at a public auction to the mortgagee Naawan Community Rural Bank as the highest bidder in the amount of P16,031.35. Thereafter, the sheriff's certificate of sale was issued and registered under Act 3344 in the Register of Deeds of the Province of Misamis Oriental.

On April 17, 1984, the subject property was registered in original proceedings under the Land Registration Act. Title was entered in the registration book of the Register of Deeds of Cagayan de Oro City as Original Certificate of Title No. 0-820, pursuant to Decree No. N-189413.

On July 23, 1984, Transfer Certificate of Title No. T-41499 in the name of Guillermo P. Comayas was entered in the Register of Deeds of Cagayan de Oro City.

Meanwhile, on September 5, 1986, the period for redemption of the foreclosed subject property lapsed and the MTCC Deputy Sheriff of Cagayan de Oro City issued and delivered to petitioner bank the sheriff's deed of final conveyance. This time, the deed was registered under Act 3344 and recorded in the registration book of the Register of Deeds of Cagayan de Oro City.

By virtue of said deed, petitioner Bank obtained a tax declaration for the subject house and lot.

Thereafter, petitioner Bank instituted an action for ejectment against Comayas before the MTCC which decided in its favor. On appeal, the Regional Trial Court affirmed the decision of the MTCC in a decision dated April 13, 1988.

On January 27, 1989, the Regional Trial Court issued an order for the issuance of a writ of execution of its judgment. The MTCC, being the court of origin, promptly issued said writ.

However, when the writ was served, the property was no longer occupied by Comayas but herein private respondents, the spouses Lumo who had, as earlier mentioned, bought it from Comayas on May 17, 1988

Alarmed by the prospect of being ejected from their home, private respondents filed an action for quieting of title which was docketed as Civil Case No. 89-138. After trial, the Regional Trial Court rendered a decision declaring private respondents as purchasers for value and in good faith, and consequently declaring them as the absolute owners and possessors of the subject house and lot.

Petitioner appealed to the Court of Appeals which in turn affirmed the trial court's decision.

Hence, this petition.

Petitioner raises the following issues:

- WHETHER OR NOT THE SHERIFF'S DEED OF FINAL CONVEYANCE WAS DULY EXECUTED AND REGISTERED IN THE REGISTER OF DEEDS OF CAGAYAN DE ORO CITY ON DECEMBER 2, 1986;
- WHETHER OR NOT REGISTRATION OF SHERIFF'S DEED OF FINAL CONVEYANCE IN THE PROPER REGISTRY OF DEEDS COULD BE EFFECTIVE AS AGAINST SPOUSES LUMO.

Both parties cite Article 1544 of the Civil Code which governs the double sale of immovable property.

Article 1544 provides:

“x x x. Should it be immovable property, the ownership shall belong to the person acquiring it who in good faith first recorded it in the Registry of Property.”

Petitioner bank contends that the earlier registration of the sheriff's deed of final conveyance in the day book under Act 3344 should prevail over the later registration of private respondents' deed of absolute sale under Act 496,[4] as amended by the Property Registration Decree, PD 1529.

This contention has no leg to stand on. It has been held that, where a person claims to have superior proprietary rights over another on the ground that he derived his title from a sheriff's sale registered in the Registry of Property, Article 1473 (now Article 1544) of the Civil Code will apply only if said execution sale of real estate is registered under Act 496.[5]

Unfortunately, the subject property was still untitled when it was acquired by petitioner bank by virtue of a final deed of conveyance. On the other hand, when private respondents purchased the same property, it was already covered by the Torrens System.

Petitioner also relies on the case of *Bautista vs. Fule*[6] where the Court ruled that the registration of an instrument involving unregistered land in the Registry of Deeds creates constructive notice and binds third person who may subsequently deal with the same property.

However, a close scrutiny of the records reveals that, at the time of the execution and delivery of the sheriff's deed of final conveyance on September 5, 1986, the disputed property was already covered by the Land Registration Act and Original Certificate of Title No. 0-820 pursuant to Decree No. N189413 was likewise already entered in the registration book of the Register of Deeds of Cagayan De Oro City as of April 17, 1984.

Thus, from April 17, 1984, the subject property was already under the operation of the Torrens System. Under the said system, registration is the operative act that gives validity to the transfer or creates a lien upon the land.

Moreover, the issuance of a certificate of title had the effect of relieving the land of all claims except those noted thereon. Accordingly, private respondents, in dealing with the subject registered land, were not required by law to go beyond the register to determine the legal condition of the property. They were only charged with notice of such burdens on the property as were noted on the register or the certificate of title. To have required them to do more would have been to defeat the primary object of the Torrens System which is to make the Torrens Title indefeasible and valid against the whole world.

Private respondents posit that, even assuming that the sheriff's deed of final conveyance in favor of petitioner bank was duly recorded in the day book of the Register of Deeds under Act 3344, ownership of the subject real property would still be theirs as purchasers in good faith because they registered the sale first under the Property Registration Decree.

The rights created by the above-stated statute of course do not and cannot accrue under an inscription in bad faith. Mere registration of title in case of double sale is not enough; good faith must concur with the registration.[7]

Petitioner contends that the due and proper registration of the sheriff's deed of final conveyance on December 2, 1986 amounted to constructive notice to private respondents. Thus, when private respondents bought the subject property on May 17, 1988, they were deemed to have purchased the said property with the knowledge that it was already registered in the name of petitioner bank.

Thus, the only issue left to be resolved is whether or not private respondents could be considered as buyers in good faith.

The "priority in time" principle being invoked by petitioner bank is misplaced because its registration referred to land not within the Torrens System but under Act 3344. On the other hand, when private respondents bought the subject property, the same was already registered under the Torrens System. It is a well-known rule in this jurisdiction that persons dealing with registered land have the legal right to rely on the face of the Torrens Certificate of Title and to dispense with the need to inquire further, except when the party concerned has actual knowledge of facts and circumstances that would impel a reasonably cautious man to make such inquiry.[8]

Did private respondents exercise the required diligence in ascertaining the legal condition of the title to the subject property so as to be considered as innocent purchasers for value and in good faith?

We answer in the affirmative.

Before private respondents bought the subject property from Guillermo Comayas, inquiries were made with the Registry of Deeds and the Bureau of Lands regarding the status of the vendor's title. No liens or encumbrances were found to have been annotated on the certificate of title. Neither were private respondents aware of any adverse claim or lien on the property other than the adverse claim of a certain Geneva Galupo to whom Guillermo Comayas had mortgaged the subject property. But, as already mentioned, the claim of Galupo was eventually settled and the adverse claim previously annotated on the title cancelled. Thus, having made the necessary inquiries, private respondents did not have to go beyond the certificate of title. Otherwise, the efficacy and conclusiveness of the Torrens Certificate of Title would be rendered futile and nugatory.

Considering therefore that private respondents exercised the diligence required by law in ascertaining the legal status of the Torrens title of Guillermo Comayas over the subject property and found no flaws therein, they should be considered as innocent purchasers for value and in good faith.

Accordingly, the appealed judgment of the appellate court upholding private respondents Alfredo and Annabelle Lumo as the true and rightful owners of the disputed property is affirmed.

WHEREFORE, petition is hereby DENIED.

SO ORDERED.

Puno, (Chairman), Panganiban, Sandoval-Gutierrez, and Morales, JJ., concur.

[1] Penned by Associate Justice Oswaldo D. Agcaoili and concurred in by Associate Justices Jorge S. Imperial and Buenaventura J. Guerrero of the Ninth Division.

[2] Penned by Judge Senen C. Peñaranda; Records pp. 134-141.

[3] Rollo, pp. 47-48.

[4] Land Registration Act.

[5] Julian Mediente and Nicodemus Garcia vs. Valentin Rosabal, 73 Phil 694 [1942].

[6] 85 Phil 391 [1949].

[7] Bargado vs. Court of Appeals, 173 SCRA 497 [1989].

[8] Seno et al. vs. Mangabate, 156 SCRA 113 [127].

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