

**THE MALAYAN BANK (FORMERLY REPUBLIC PLANTERS BANK),  
PETITIONERS, VS. AGUSTIN LAGRAMA, EDGARDO LAGRAMA,  
DANILO LAGRAMA, ARTEMIO LAGRAMA, CORAZON LAGRAMA, AND  
THE COURT OF APPEALS...**

*G.R. No. 144884. April 27, 2001*

Ponente: MENDOZA, J.

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**MENDOZA, J.:**

This is a petition for review of the decision,[1] dated April 17, 2000, of the Court of Appeals in CA-G.R. SP No. 53856, affirming an order, dated September 29, 1998, of the Regional Trial Court, Branch 56, Lucena City, the dispositive portion of which reads:

WHEREFORE, FROM THE FOREGOING, defendant Republic Planters Bank is hereby ordered to execute within twenty (20) days from receipt hereof, the necessary deed of reconveyance called for in the order of the Court dated 17 May 1993 in favor of the plaintiffs.

SO ORDERED.[2]

The background of the case is as follows:

Demetrio Llego, one of the defendants in the original complaint filed in the Regional Trial Court of Lucena City, inherited from his father a portion of a parcel of land situated in Barangay Silangang Mayao, Lucena City. This portion was part of a bigger parcel of land, the other portions of which, in turn, were inherited by Llego's mother and siblings. The heirs undertook the apportionment of the inherited parcel of land informally, without executing a written extrajudicial partition thereof. As a result, title to the property remained in the name of Llego's father.[3]

On March 25, 1976, Llego sold to his uncle, herein private respondent Agustin Lagrama, and his aunt Paz Abastillas his share in the inherited parcel of land. The lot was to be paid in installments. Llego did not, however, execute a deed of sale of the lot as title to the lot was still in his father's name. Llego promised that as soon as the title was transferred in his name, he would immediately execute a deed of absolute sale in favor of the buyers, to which they agreed.[4]

Notwithstanding the absence of a deed of sale, on March 26, 1976, private respondent Lagrama and Abastillas entered into and took possession of the portion of land sold to them by Llego. On December 23, 1977, private respondent Lagrama and Abastillas paid the balance of the purchase price of the lot sold to them.[5]

On March 6, 1979, Llego and his co-heirs extrajudicially partitioned the property[6] left by their father. A new title was issued to Llego for his share, i.e., the portion of the land he had previously sold to private respondent Lagrama. On November 12, 1982, Llego, through his attorney-in-fact, Ceferino Tan, mortgaged the land to the Republic Planters Bank for P45,000.00. As Llego failed to pay his indebtedness to petitioner bank, the mortgage was foreclosed and the property was sold to the bank as the highest bidder. It appears that Llego likewise failed to

redeem the property.[7]

In 1983, private respondents filed with the trial court a complaint for specific performance to compel Llego to execute the necessary deed of absolute sale in their favor. Impleaded as co-defendants were Ceferino Tan and petitioner bank. Llego did not answer the complaint and was, for that reason, declared in default. Petitioner bank, in its answer, pleaded that it was a mortgagee in good faith. On the other hand, Tan alleged that he acted as Llego's attorney-in-fact only as an accommodation.[8]

On May 17, 1993, the lower court rendered its decision, the dispositive portion of which stated:

WHEREFORE, by reason of the overwhelming evidence presented, the Court finds the case of the plaintiffs and conformably declares that plaintiffs [herein private respondents] herein are the absolute owners of the land in question and defendant Demetrio Llego is heretofore directed to execute the necessary conveyance for him and defendant Ceferino Tan to redeem the said property from the defendant bank.

Consequently, the Register of Deeds of Quezon is directed to cancel Transfer Certificate of Title No. T-31753 and upon the execution and registration of the corresponding deed of sale the title be registered in the names of plaintiffs Agustin Lagrama, Edgardo Lagrama, Danilo Lagrama, Artemio Lagrama and Corazon Lagrama.

Plaintiffs not being able to prove damages, the Court denies the same.

SO ORDERED.[9]

Republic Planters Bank appealed, but the appeal was dismissed for its failure to file the brief on time. As a consequence, the decision of the lower court became final.

Thereafter, a writ of execution was issued, but it was returned unsatisfied because it turned out that petitioner bank had consolidated its title over the land in dispute for failure of Demetrio Llego to redeem it.[10] Private respondents then filed a motion to require the petitioner bank to execute the necessary deed of reconveyance, which was opposed by the latter.[11]

On September 29, 1998, the trial court granted private respondents' motion and ordered Republic Planters Bank to execute the "necessary deed of reconveyance called for in the order of the Court dated May 17, 1995 in favor of the plaintiffs." [12] Petitioner bank moved for reconsideration, but its motion was denied.

On appeal, the Court of Appeals rendered its questioned decision affirming the trial court's decision and dismissing the petition. The Court of Appeals held:

It is well to remember that Republic Planters Bank was impleaded in the action below precisely because plaintiffs therein, now private respondents Agustin Lagrama, et al., questioned the act of Demetrio Llego in mortgaging the property to the bank despite the fact that he had previously sold the same to Agustin Lagrama. In its decision, the court found that, by his acts, Llego engaged in a scheme "designed to defraud plaintiffs." The court noted that Llego did not even bother to answer the complaint and allowed himself to be declared in default. Neither did Ceferino Tan offer any evidence to counteract the imputation of fraud against him, in conspiracy with Llego. Significantly, during the proceedings, title to the land was still in the name of Demetrio Llego. This therefore explains why the court in its judgment ordered Llego himself, and not the mortgagee bank, to effect the conveyance to the plaintiffs. The court in fact ordered the Register of Deeds to cancel the title (TCT No. T-31753) of Llego and issue a new title to the Lagramas "upon the execution and registration of the corresponding deed of sale."

Now, when execution of the final judgment was made, the sheriff reported "that defendant (Demeterio) Llego refused to sign the document of reconveyance while defendant Ceferino Tan cannot be located." Consequently, private respondents, as prevailing parties, invoked the remedy provided for in section 10(a) of the 1997

Revised Rules of Civil Procedure which provides that in lieu of directing a conveyance of the property, the court "may by an order divest the title of any party and vest it in others, which shall have the same form of a conveyance executed in due form of law."

Republic Planters Bank cannot blunt the impact of the court's order of September 29, 1998 on the allegation that it is a mortgagee in good faith. It was, to repeat, impleaded as a defendant in the action for specific performance. It was aware of the charge of fraud imputed to Demeterio Llego in mortgaging the property to the bank despite the previous sale thereof to Agustin Lagrama. The court indeed found the existence of fraud in the transaction. The bank appealed the decision of the court but its appeal was thrown out. Meantime, the bank consolidated its title over the property. How then can the bank insist on its protestation that it has a good title thereto?[13]

Petitioner bank's motion for reconsideration was likewise denied. Hence this petition.

The main question in this case is whether or not petitioner bank may be compelled to execute a deed of reconveyance transferring the parcel of land mortgaged to petitioner in favor of private respondents.

The Court of Appeals rejected the contention that petitioner cannot be compelled to execute the deed of reconveyance since it was Demetrio Llego himself who was ordered by the court to do so. It stressed that title to the property had been consolidated in the name of the bank by virtue of the failure of Llego to redeem the mortgage. Hence, it could not be insisted that Llego should effect the reconveyance. The Court of Appeals agreed with the trial court that the bank took title to the property *pendente lite* and, therefore, it was bound by the court's decision.[14]

On the other hand, petitioner contends that it is a mortgagee in good faith and for value of the property as of March 12, 1982 when the same was mortgaged to it by Demetrio Llego. It points out that the complaint for specific performance was filed by private respondents only on May 3, 1984, more than one year after the mortgage was validly constituted on November 12, 1982. As it was an innocent purchaser for value long before the case against it was filed, it could not be considered a transferee *pendente lite*.

Petitioner likewise cites *St. Dominic Corp. v. Intermediate Appellate Court*,[15] in which it was held that the foreclosure sale retroacts to the date of the registration of the mortgage and that a person who takes a mortgage in good faith and for valuable consideration, the record showing clear title to the mortgagor, will be protected against equitable claims on the title in favor of third persons of which he had no actual or constructive notice. Prescinding from this, petitioner contends that the foreclosure sale in the case at bar must be treated to have taken place not on the actual date of the sale or during the pendency of the case but on the date the mortgage was executed and registered, or on November 12, 1982, more than one year before the case in the lower court was filed. Consequently, petitioner cannot be considered a transferee *pendente lite* and it could not be accused of being aware of the flaw on said title when it transferred the property.[16]

Petitioner's contentions are without merit.

Several circumstances militate against petitioner's argument that the mortgage in its favor and the subsequent foreclosure and consolidation of title of the property under its name must be protected and respected.

First. In the complaint for specific performance filed by private respondents, petitioner bank was impleaded as co-defendant along with Demetrio Llego and Ceferino Tan. The trial court's decision, dated May 17, 1993, has already attained finality as petitioner's appeal to the Court of Appeals was dismissed for being filed out of time. As correctly pointed out by private respondents in their comment, the instant petition is improper considering that it attempts to reverse the trial court's decision which is already final and executory.[17] This being the case, whatever judgment was rendered by the court in that case is necessarily binding on all defendants therein, i.e.,

Llego, Tan and petitioner bank. As to which defendant would actually execute the reconveyance is not important, for this merely involves the implementation of the court's order.

The trial court ordered Llego to execute the necessary deed of reconveyance and, together with Ceferino Tan, to redeem the property from petitioner bank believing that title to the land was still in the name of Llego. As the writ of execution directed at Llego could not be carried out, because in the meantime petitioner bank had obtained title to the land, the trial court directed its order to petitioner bank. It cannot be argued that, in so doing, the court modified its earlier judgment. It is noteworthy that petitioner bank tried to appeal from the decision of the trial court which ordered the Register of Deeds of Quezon to cancel TCT No. T-31753 and issue a new title to private respondents, but the bank's appeal was dismissed for its failure to file its brief. As a result, the trial court's decision became final, and petitioner bank cannot now claim that it is not bound by the trial court's order to reconvey the land to private respondents.

Second. Both the trial court and the Court of Appeals correctly held that petitioner bank was a transferee pendente lite whose title was subject to the incidents and results of the pending litigation. Petitioner bank contends that it constituted the mortgage more than a year before the private respondents' action for specific performance was filed and the fact that the foreclosure and public auction sale took place after the institution of the case is immaterial since the foreclosure sale retroacts to the date of the constitution of the mortgage. Petitioner bank argues that it was a purchaser for value long before the filing of the case and, therefore, it cannot be considered a transferee pendente lite.

This argument is specious. Petitioner acquired the property only after the filing of private respondents' case for specific performance. When the mortgage was constituted, petitioner was not yet, properly speaking, a transferee, being a mere mortgagee of the property. Only when petitioner acquired the property in the foreclosure sale and subsequently consolidated its title did it become the transferee of the property.

Thus, petitioner bank is a transferee pendente lite of the property in litigation within the contemplation of Rule 39, §47(b). As such, it is bound by the decision against Demetrio Llego. As this Court held in one case:[18]

. . . A transferee pendente lite stands exactly in the shoes of the transferor and is bound by any judgment or decree which may be rendered for or against the transferor; his title is subject to the incidents and results of the pending litigation, and his transfer certificate of title will, in that respect, afford him no special protection.[19]

Petitioner bank may thus be properly ordered to execute the necessary deed of reconveyance in favor of private respondents. The remedy left to petitioner is to pursue its claim against Llego and his attorney-in-fact Ceferino Tan by filing the appropriate action to recover the unpaid indebtedness.

Third. Petitioner insists that it is not a transferee pendente lite because it was a purchaser for value long before the case for specific performance was filed. The contention is without merit. Even if it is not a transferee pendente lite, petitioner nevertheless cannot claim a right superior to that of private respondents because petitioner acted in bad faith when it foreclosed and acquired the property. As the Court of Appeals pointed out, petitioner was aware of the charge of fraud against Demetrio Llego in mortgaging the property to it despite the previous sale thereof to private respondent Agustin Lagrama. The trial court found the existence of fraud in the transaction and declared private respondents to be the absolute owners of the property. As already stated, this decision of the trial court is now final and is binding on petitioner bank. In the meantime, the bank consolidated its title over the property. Since the bank acquired the land in question with knowledge of the fraud committed by Llego, it cannot claim to be a purchaser in good faith and, therefore, to have a better right than its predecessor-in-interest.[20]

Petitioner's reliance on the case of *St. Dominic Corp. v. Intermediate Appellate Court*[21] is misplaced. The facts of that case are different from those of the case at bar. In the *Dominic* case, the facts were as follows: In 1961, the

People's Homesite and Housing Corporation (PHHC) awarded a parcel of land covered by TCT No. 83783 to Cristobal Santiago, who sold the same to the spouses Carlos Robes and Adelia Francisco. The spouses Robes mortgaged the lot to Manufacturer's Bank and Trust Company, and this fact was duly annotated on the back of TCT 84387. Thereafter, Civil Case No. Q-11895, entitled Ricardo Castulo and Juan V. Ebreo v. Carlos Robes, Adelia Francisco, and People's Homesite and Housing Corporation, was filed seeking the cancellation of TCT No. 83783. Claiming legal interest in the property, the Bustamante spouses were allowed to intervene in the case. A notice of lis pendens was annotated on the title at the instance of the Bustamante spouses. For failure of the Robes spouses to pay the mortgage obligation, Manufacturer's Bank foreclosed the lot which was then bought at public auction by Aurora Francisco, who was subsequently issued a certificate of sale. As no redemption of the property was effected, TCT No. 84387 issued in the name of the Robes spouses was cancelled and TCT No. 217192 was issued to the buyer Aurora Francisco. The notice of lis pendens was not carried over to TCT No. 217192.

Aurora Francisco applied for, and was issued, a writ of possession for the property. The Bustamante spouses filed a motion to quash the writ, which motion was denied by the lower court. The spouses then filed a petition for certiorari with the Supreme Court. Thereafter, Aurora Francisco sold the property to petitioner St. Dominic Corp, which was issued TCT No. 22337. Again, no notice of any lien or encumbrance appeared on the title.

Meanwhile, Civil Case No. Q-11895 was decided. The trial court ruled that the sale by PHHC to Cristobal Santiago was void and cancelled TCT No. 83783. The sale of the same lot to the spouses Robes was likewise declared void and TCT No. 84387 was cancelled. PHHC was ordered to process Bustamante's application to purchase the lot and execute documents awarding the lot to her. A writ of execution was issued to the Bustamante spouses, with the qualification, however, that the writ could not be enforced against St. Dominic Corp. The spouses questioned the order via certiorari with the Intermediate Appellate Court, which granted the writ of certiorari and ordered the trial court to issue the writ of execution against St. Dominic Corp.

On appeal, this Court reversed the ruling of the Intermediate Appellate Court and held that St. Dominic Corp. was not bound by the decision in that case because it was never impleaded in Civil Case No. Q-11895. Anent the effect of the trial court's judgment on Manufacturer's Bank's (mortgagee bank) rights and on the foreclosure of the property in question, it was held that the invalidation of the title issued as a result of regular land registration proceedings in the name of the mortgagor when given as a security for a loan would not nullify the rights of a mortgagee who acted in good faith. The mortgagee is under no obligation to look beyond the certificate of title and has the right to rely on what appears on its face. The title to the property given as security to Manufacturer's Bank by the spouses was valid, regular, and free from any lien or encumbrance. The title of Aurora Francisco, as a purchaser at the public auction sale of the property in question, could not be affected by any adverse claim as the plaintiffs in the civil case. This is even more true with petitioner St. Dominic Corp. which had acquired title from Francisco without any notice or flaw.

In the case of St. Dominic, when the property in question was mortgaged to Manufacturer's Bank, the title showed that it was valid, regular, and free from any lien or encumbrance. When it was later foreclosed and sold at public auction and a new transfer certificate of title was issued to the buyer, the notice of lis pendens was not carried over to the new title. And, when the property was sold to petitioner St. Dominic Corp., which was again issued TCT No. 22337, no notice of any lien or encumbrance appeared on the title. These factual circumstances led the Court to conclude that the mortgagee bank and its subsequent transferees had acted in good faith. It is obvious that the case of St. Dominic Corp. v. Intermediate Appellate Court cannot be invoked in this case where both the trial court[22] and the Court of Appeals[23] found that petitioner bank did not act in good faith in acquiring title to the property.

WHEREFORE, the decision of the Court of Appeals appealed from is AFFIRMED.

**SO ORDERED.**

Bellosillo, (Chairman), and Buena, JJ., concur.

Quisumbing and De Leon, Jr., JJ., on leave.

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[1] Per Justice Oswaldo D. Agcaoili, Chairman, and concurred in by Justices Ma. Alicia Austria-Martinez and Wenceslao I. Agnir, Jr.

[2] Rollo, pp. 49-50.

[3] Complaint, p. 8; Rollo, p. 17.

[4] Id., pp. 8-9; Id., pp. 17-18.

[5] Id., p. 3; Id., p. 18.

[6] Id., p. 4; Id., p. 19.

[7] CA Decision, p. 2; Id., p. 80.

[8] Id.

[9] Rollo, p. 40.

[10] CA Decision, p. 3; Id., p. 81.

[11] Petition, p. 3; Id., p. 5.

[12] Decision, *supra* note 9.

[13] CA Decision, pp. 4-5; Rollo pp. 82-83.

[14] Id, p. 5; Id., p. 83.

**[15] 151 SCRA 577 (1987).**

[16] Petition, pp. 5-8; Rollo, pp. 7-11.

[17] Comment, p. 6; Id., p. 111.

[18] *Yu v. Court of Appeals*, 251 SCRA 509 (1995).

[19] Id. citing *Demontano v. Court of Appeals*, 81 SCRA 287 (1978); *Director of Lands v. Martin*, 84 Phil. 140 (1949); *Tuazon v. Reyes and Siochi*, 48 Phil. 844 (1926); *Rivera v. Moran*, 48 Phil. 386 (1926).

[20] See *id.*

[21] *St. Dominic*, *supra* note 14.

[22] See Order of the Trial Court, p. 2; Rollo, p. 64.

[23] See CA Decision, p. 5; Id., p. 83.

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