

FRANCISCO H. LU, PETITIONER, VS. SPOUSES ORLANDO AND ROSITA MANIPON, RESPONDENTS.

G.R. No. 147072. May 07, 2002

Ponente: PANGANIBAN, J.

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PANGANIBAN, J.:

The registration of a sale of real estate will not protect a buyer in bad faith, for the law cannot be used as a shield for fraud. On the other hand, the preferential right of a first registrant in a double sale is always qualified by good faith.

The Case

Before us is a Petition for Review on Certiorari challenging the October 25, 2000 Decision and the February 9, 2001 Resolution of the Court of Appeals[1] (CA) in CA-GR CV No. 55149. The assailed Decision disposed as follows:

"WHEREFORE, premises considered, the appealed Decision is hereby AFFIRMED with MODIFICATION in the sense that [petitioner] is directed to convey Lot 5582-B-7-D covered by TCT No. 171497 to [respondent] Rosita C. Manipon without being entitled to any payment from the latter." [2]

The assailed Resolution denied the Motion for Reconsideration.[3]

The Facts

The facts of the case are summarized in the assailed Decision as follows:

"On May 9, 1981, Juan Peralta executed a [D]eed of [S]ale by installment in favor of spouses Orlando and Rosita Manipon [herein respondents]. Therein, Juan Peralta agreed to sell by installment to the said spouses 350 square meters of the 2,078 square-meter lot he owned, covered by Transfer Certificate of Title (TCT) No. 137911 and located at Barrio Dilan, Urdaneta, Pangasinan. The said [D]eed was not registered with the Registry of Deeds.

"On June 10, 1981, Juan Peralta mortgaged the aforesaid lot to Thrift Savings and Loan Association, Inc. (TSLAI). He however failed to pay the loan he obtained for which the mortgage was constituted and so the same was judicially foreclosed and sold to TSLAI for P62,789.18 which was the highest bidder. The latter in turn sold the same on July 15, 1988 in the amount of P80,000.00 to the [petitioner]. Thereafter, on August 30, 1989, [petitioner] caused the subdivision of the said lot into five (5) lots, one of which is Lot 5582-B-7-D, with an area of 339 square meters covering the lot which was earlier sold by installment to [respondents]. The said lot is now covered by TCT No. 171497. In the interim, or on July 30, 1983, Juan Peralta executed a [D]eed of [S]ale in favor of [respondents] after the couple paid a total amount of P8,000.00 for the subject lot. The aforesaid [D]eed was however also not registered.

"On January 22, 1990, [petitioner] through counsel wrote the [respondents] regarding the presence of the latter's house, which was also being occupied by them, on the lot in question. Efforts were apparently made by

both parties to settle the brewing dispute but to [no] avail. Hence, on February 26, 1990, [petitioner] filed the present action alleging therein that he is the owner of the lot in question including that which was being occupied by [respondents. Petitioner] further claims that his ownership was confirmed by the Regional Trial Court of Urdaneta, Pangasinan, Branch 49, in Civil Case No. U-4399. He also averred that for reasons unknown to him, [respondents] were claiming ownership of Lot 5582-B-7-D and have constructed a house thereon on January 22, 1990.

“In the Answer filed by [respondents], they claim that [petitioner] is a buyer in bad faith because even before he bought the 2,078 square-meter lot, he knew for a fact that they already bought Lot 5582-B-7-D from the original owner of the said lot and have been residing therein since 1981. [Respondents] also asserted that [petitioner] had knowledge of their claim over the said property because when the whole lot was foreclosed they shared the same problem as [petitioner] also bought a lot with the 2,078 square-meter lot of Juan Peralta.

“Trial ensued and thereafter, the trial court rendered the questioned judgment. x x x.”[4] (Citations omitted)

Ruling of the Trial Court

The trial court ruled that petitioner was not a buyer in good faith despite the fact that he was able to register his ownership of the disputed lot. He admitted knowing that respondents had constructed a house on the disputed lot in 1984, even before he purchased the property from the loan association in 1990. Indeed, he waited more than ten (10) years before contesting respondents’ occupation and possession of the land. The RTC disposed as follows:

“WHEREFORE, IN THE LIGHT OF THE FOREGOING, the Court renders judgment as follows:

“1). The [petitioner] is hereby ordered to convey to the herein [respondent] Rosita Manipon, (defendant Orlando Manipon is already dead) the lot consisting of 339 square meters denominated as Lot 5582-B-7-D and covered by Transfer Certificate of Title No. 171497 after paying the sum of P13,051.50 plus legal interest to the herein [petitioner] anytime after the finality of this decision.

“2). The third-party defendant, Juan Peralta, is ordered to refund to the defendants Manipons the amount of P18,000.00 paid by the latter to him;

“3). x x x no pronouncement as to damages in favor [of] or against either of the parties.”[5]

Ruling of the Court of Appeals

The CA affirmed the Decision of the trial court with the modification that respondents would no longer be required to pay petitioner the value of the disputed portion in a “forced sale.” The appellate court said that petitioner knew that Lot 5582-B-7-D had already been sold by Juan Peralta to respondents before the mother lot was mortgaged, foreclosed and eventually purchased. He bought the entire property from the foreclosing bank, because he feared that he might lose what he had earlier bought in 1981 -- a 350 square meter lot which also formed part of the mother lot.

Hence, this Petition.[6]

The Issues

In his Memorandum,[7] petitioner raises the following issues:

“1. Who between petitioner and respondents have a better right of ownership over the lot in question, Lot 5582-B-7-D, with an area of 339 square meters?

“2. Whether respondents’ claim over the lot can rise [above that of] their predecessor in interest Juan Peralta[.]

“3. Whether respondents are under estoppel to question petitioner’s ownership over the lot in question[.]

“4. Whether petitioner was in bad faith in the acquisition of the lot in question[.]

“5. And even assuming without admitting that petitioner is under obligation to convey the lot in question in favor of respondents, whether the consideration of the lot be paid by respondent is P2,000.00 per square meter[.]”[8]

These issues can be summed up into three questions: (1) who has a better right to the disputed property? (2) was petitioner a purchaser in bad faith? and (3) what should be the purchase price of the disputed lot?

This Court’s Ruling

The Petition is partly meritorious.

First Issue:

Better Right to the Disputed Lot

Petitioner claims to have a better right to the disputed portion of the real property. First, although respondents had bought it first, he was the first to register his purchase of the mother lot. Second, respondents’ ownership follows that of their vendor who mortgaged to the bank his title to the mother lot and failed to redeem it.

Petitioner avers that, although respondents purchased the disputed lot by installment on May 9, 1981 and fully paid for it on May 30, 1983, they failed to register their sale with the Registry of Deeds. In the meantime, on June 18, 1981, Juan Peralta mortgaged the mother lot -- including the disputed portion -- to the Thrift Savings and Loan Association, Inc. (TSLAI). The mortgage was foreclosed and the property sold on July 10, 1988. Petitioner, on the other hand, bought the whole lot from the bank for P80,000 on July 15, 1988 and registered it in his name on September 23, 1988.

Third, petitioner claims that from the time respondents fully paid for the lot until they received a Notice to Vacate, they did not do anything to perfect their title thereto; hence, they are now estopped from questioning his ownership of it.

We are not convinced. In estoppel, a person who by deed or conduct induces another to act in a particular manner is barred from adopting an inconsistent position, attitude or course of conduct that thereby causes loss or injury to another.[9] This equitable principle will not apply to respondents, because they exercised dominion over the property by occupying and building their house on it. On the other hand, it was petitioner who, despite having knowledge of the existence of respondents’ house on the disputed portion, bought the whole lot. Before acquiring the mother lot from the bank, he knew of respondents’ claim of ownership and occupation. He cannot now pretend to be an innocent buyer in good faith.

Registration is not the equivalent of title.[10] Under the Torrens system, registration only gives validity to the transfer or creates a lien upon the land.[11] It was not established as a means of acquiring title to private land because it merely confirms, but does not confer, ownership.[12] Moreover, the RTC and the CA have correctly ruled that the preferential right of the first registrant of a real property in a case of double sale is always qualified by good faith under Article 1544[13] of the Civil Code.[14] A holder in bad faith of a certificate of title is not entitled to the protection of the law, for the law cannot be used as a shield for fraud.[15]

“When the registration of a sale is not made in good faith, a party cannot base his preference of title thereon, because the law will not protect anything done in bad faith. Bad faith renders the registration futile. Thus, if a vendee registers the sale in his favor after he has acquired knowledge that there was a previous sale of the same property to a third party, or that another person claims said property under a previous sale, or that the property is in the possession of one who is not a vendor, or that there were flaws and defects in the vendor’s title, or that this was in dispute, the registration will constitute x x x bad faith, and will not confer upon him any

preferential right. The situation will be the same as if there had been no registration, and the vendee who first took possession of the real property in good faith shall be preferred.”[16]

Equally important, under Section 44 of the Property Registration Decree (Presidential Decree No. 1529), every registered owner receiving a certificate of title in pursuance of a decree of registration and every subsequent purchaser of registered land taking such certificate for value and in good faith shall hold the same free from all encumbrances, except those noted on the certificate and enumerated therein. Petitioner is evidently not a subsequent purchaser in good faith. Therefore, between the parties, respondents have a better right to the property based on the concurring factual findings of both the trial and the appellate courts. We quote with approval the following ruling of the CA:

“x x x We are persuaded that [petitioner] knew of the fact that Lot 5582-B-7-D was sold by Juan Peralta to [respondents] before Lot 5582-B-7, the mother lot of Lot 5582-B-7-D, was mortgaged, foreclosed, sold and [its ownership] transferred x x x to him. In fact, [w]e are convinced that the main reason why [petitioner] bought the entire lot from the TSLAI was his fear of losing the 350 square meter-lot he bought sometime in 1981 which also forms part of Lot 5582-B-7. Having been aware of the ‘defects’ in the title of TSLAI as far as Lot 5582-B-7-D is concerned, he cannot now claim to be a purchaser in good faith and for value even if he traces his ownership [to] TSLAI which [w]e believe was a purchaser in good faith - the latter not being aware of the sale that transpired between the [respondents] and Juan Peralta before Lot 5582-B-7 was sold to it in a public auction.

“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 an interest therein. Thus, even assuming arguendo that [petitioner] was not aware of the sale between Juan Peralta and the [respondents], still he cannot be considered as a purchaser in good faith because he had personal knowledge of [respondents’] occupation of the lot in question. This fact alone should have put him on guard before buying the land. But as he admitted during the trial, he was not interested in the [respondents’] reason for occupying the said lot[;] all that he was interested in was to buy the entire lot. This ‘devil-may-care’ attitude of [petitioner] has placed him where he is now. Consequently, he cannot be entitled to the relief he is seeking before this [c]ourt.

“True, the purchaser of a registered land is not required to go behind the title to determine the condition of the property. However, 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.”[17]

All told, the right of a buyer to rely upon the face of the title certificate and to dispense with the need of inquiring further is upheld only when the party concerned had no actual knowledge of facts and circumstances that should impel a reasonably cautious man to conduct further inquiry.[18]

Second Issue:

Bad Faith

Petitioner denies being a purchaser in bad faith. He alleges that the only reason he spoke to the respondents before he bought the foreclosed land was to invite them to share in the purchase price, but they turned him down. This, he argues, was not an indication of bad faith.

Petitioner’s contention is untenable. He might have had good intentions at heart, but it is not the intention that makes one an innocent buyer. A purchaser in good faith or an innocent purchaser for value is one who buys

property and pays a full and fair price for it, at the time of the purchase or before any notice of some other person's claim on or interest in it.[19] One cannot close one's eyes to facts that should put a reasonable person on guard and still claim to have acted in good faith. As aptly explained by Vitug:

"The governing principle is prius tempore, potior jure (first in time, stronger in right). Knowledge by the first buyer of the second sale cannot defeat the first buyer's rights except when the second buyer first registers in good faith the second sale (*Olivares vs. Gonzales*, 159 SCRA 33.) Conversely, knowledge gained by the second buyer of the first sale defeats his rights even if he is first to register, since such knowledge taints his registration with bad faith (see also *Astorga vs. Court of Appeals*, G.R. No. 58530, 26 December 1984). In *Cruz vs. Cabana* (G.R. No. 56232, 22 June 1984; 129 SCRA 656), it was held that it is essential, to merit the protection of Art. 1544, second paragraph, that the second realty buyer must act in good faith in registering his deed of sale (citing *Carbonell vs. Court of Appeals*, 69 SCRA 99, *Crisostomo vs. CA*, G.R. 95843, 02 September 1992).

"The registration contemplated under Art. 1544 has been held to refer to registration under Act 496 Land Registration Act (now PD 1529) which considers the act of registration as the operative act that binds the land (see *Mediante vs. Rosabal*, 1 O.G. [12] 900, *Garcia vs. Rosabal*, 73 Phil 694). On lands covered by the Torrens System, the purchaser acquires such rights and interest as they appear in the certificate of title, unaffected by any prior lien or encumbrance not noted therein. The purchaser is not required to explore farther than what the Torrens title, upon its face, indicates. The only exception is where the purchaser has actual knowledge of a flaw or defect in the title of the seller or of such liens or encumbrances which, as to him, is equivalent to registration (see Sec. 39, Act 496; *Bernales vs. IAC*, G.R. 75336, 18 October 1988; *Hernandez vs. Sales*, 69 Phil 744; *Tajonera vs. Court of Appeals*, L-26677, 27 March 1981)."[20]

By his own allegations, petitioner admits he was not a purchaser in good faith. A buyer of real property which is in the possession of another must be wary and investigate the rights of the latter. Otherwise, without such inquiry, the buyer cannot be said to be in good faith.[21]

Basic is the rule that the factual findings of the appellate court are given great weight, even finality, when they affirm those of the trial court,[22] unless they fall under the exceptions enumerated in *Fuentes v. Court of Appeals*. [23] Petitioner has not shown that this case falls under any of those exceptions; hence, we find no cogent reason to depart from this general rule.

Third Issue:

Proper Purchase Price

Petitioner protests respondents' exemption from paying him P13,051.50 with legal interest for the conveyance of the disputed portion. Instead, he pleads that this Court modify the price to P2,000 per square meter.

We are not persuaded. While neither party appealed the issue of the purchase price, petitioner did question the conveyance of Lot 5582-B-7-D to respondents upon payment of the said price. Hence, the payment was also effectively put in issue. It is well-settled that appellate courts have ample authority to rule on matters not specifically assigned as errors in an appeal, if these are indispensable or necessary to the just resolution of the pleaded issues.[24]

However, the CA modification exempting respondents from paying petitioner is flawed, because the RTC had ordered Juan Peralta to refund the P18,000 paid to him by petitioner as the purchase price of the disputed lot. Thus, the trial court correctly ordered (1) respondents to pay petitioner P13,051.50[25] plus legal interest for Lot 5582-B-7-D and (2) the third-party defendant Peralta to refund to respondents the P18,000 they had paid for the lot. The CA ruling would unjustly enrich respondents, who would receive double compensation. In short, the RTC ruling should have been affirmed in its entirety.

WHEREFORE, the Petition is PARTLY GRANTED. The assailed Decision and Resolution are AFFIRMED without the MODIFICATION ordered by the CA. No pronouncement as to costs.

SO ORDERED.

Melo, (Chairman), Vitug, Sandoval-Gutierrez, and Carpio, JJ., concur.

[1] Seventeenth Division. Penned by Justice Martin S. Villarama Jr. with the concurrence of Justices Romeo J. Callejo Sr. (Division chairman) and Juan Q. Enriquez Jr. (member).

[2] Assailed Decision, pp. 5-6; rollo, pp. 66-67.

[3] Rollo, p. 71.

[4] CA Decision, pp. 2-3; rollo, pp. 63-64.

[5] RTC Decision, pp. 15-16; rollo, pp. 46-47; penned by Judge Joven F. Costales.

[6] The case was deemed submitted for decision on November 19, 2001 upon the submission of the Memorandum for petitioner.

[7] Signed by Atty. Simplicio M. Sevilleja; Atty. Ruben G. Ticse Sr. signed the Memorandum for respondents, but did not indicate his IBP number and PTF fees. He is advised to do so next time; otherwise, he would be sanctioned.

[8] Petitioner's Memorandum, p. 5; rollo, p. 121.

[9] Cruz v. Court of Appeals, 293 SCRA 239, July 27, 1998.

[10] Lee Tek Sheng v. Court of Appeals, 292 SCRA 544, 548, July 15, 1998.

[11] Sajonas v. Court of Appeals, 258 SCRA 79 & 91, July 5, 1996.

[12] Republic v. Court of Appeals, 301 SCRA 366, 384, January 21, 1999; Heirs of Teodoro Dela Cruz v. Court of Appeals, 298 SCRA 172, October 21, 1998; Strait Times, Inc. v. Court of Appeals, 294 SCRA 714, August 28, 1998; Republic v. Court of Appeals, 258 SCRA 712, 722, July 12, 1996.

[13] "Art. 1544. 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 movable property.

"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.

"Should there be no inscription, the ownership shall pertain to the person who in good faith was first in the possession; and, in the absence thereof, to the person who presents the oldest title, provided there is good faith."

[14] Baricuatro Jr. v. Court of Appeals, 325 SCRA 137, 148-149, February 9, 2000; Uraca v. Court of Appeals, 278 SCRA 702, 712, September 5, 1997.

[15] Baricuatro Jr. v. CA, supra, p. 155.

[16] Tolentino, Civil Code of the Philippines, Vol. V, 1992 ed., p. 100; citations omitted.

[17] CA Decision, pp. 4-5; rollo, pp. 65-66.

[18] Republic v. Court of Appeals, *supra*, p. 380.

[19] David v. Malay, 318 SCRA 711, 722, November 19, 1999; Republic v. CA, *supra*, p. 381; Co v. Court of Appeals, 196 SCRA 705, May 6, 1991.

[20] Vitug, Compendium of Civil Law and Jurisprudence, 1993 rev. ed., p. 604.

[21] David v. Malay, *supra*, p. 724.

[22] Borrromeo v. Sun, 317 SCRA 176, 182, October 22, 1999; Compañia Maritima, Inc. v. Court of Appeals, 318 SCRA 169, 177, November 16, 1999.

[23] 268 SCRA 703, 708-709, February 26, 1997; Baricuatro Jr. v. CA, *supra*, p. 145.

[24] Logronio v. Taleseo, 312 SCRA 52, 60, August 6, 1999.

[25] The price was computed as follows: petitioner bought the whole 2.078 sq. m. lot from the bank for P80,000, of P38.50 per sq. m.; therefore, the trial court fixed the value of Lot 5582-B-7-D at 339 sq. m. multiplied by P38.50 or P13,051.50 plus legal interest.

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