

**DR. ROBERTO DE LEON, PETITIONER, VS. EDUARDO CALALO,
REPRESENTED BY HIS ATTORNEY-IN-FACT LUZ A. MEDINA,
RESPONDENT.**

G.R. No. 152332. November 15, 2002

Ponente: MENDOZA, J.

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MENDOZA, J.:

This is a petition for review on certiorari of the decision,[1] dated May 29, 2000, of the Court of Appeals, vacating and setting aside the decision of the Regional Trial Court, Branch 74, Olongapo City, and remanding the case to the court of origin for further proceedings, as well as the appellate court's resolution, dated February 19, 2002, denying reconsideration.

This case was brought below by respondent Eduardo Calalo for the annulment of the mortgage executed by his brother, Augorio Calalo, in favor of petitioner Roberto de Leon covering a piece of land and the improvements thereon, consisting of a residential house and a commercial building located at 45/4th Street, East Tapinac, Olongapo City. Respondent Eduardo alleged that he was the owner of the property mortgaged, having bought it for P306,000.00 from the spouses Federico and Marietta Malit on September 13, 1984. He claimed that, as he was then a member of the merchant marines and stayed abroad, the Deed of Absolute Sale covering the land was made in favor of his brother, Augorio Calalo; that on April 8, 1985, Augorio executed a Deed of Donation in favor of the minor Julsunthie Calalo, herein respondent's son, who, from the time the property was purchased until the filing of the complaint, had been receiving the fruits of the property; that on September 14, 1988, Augorio mortgaged the said property to petitioner Roberto de Leon without his [respondent's] knowledge and consent; that the mortgage was amended on September 30, 1988; that Augorio did not have any right to mortgage the property because he was not the owner thereof; and that he (respondent Eduardo) learned only in June 1992 that the property was the subject of an extrajudicial foreclosure. Named defendants in the action were petitioner Roberto de Leon, Augorio Calalo and Benjamin Gonzales, the sheriff conducting the foreclosure proceeding.

In due time, petitioner De Leon filed an answer in which he claimed to be a mortgagee in good faith, having previously ascertained the ownership of Augorio who occupied and possessed the land in question and in whose name the land was registered in the Register of Deeds and in various other documents. He pointed out that even the deed of sale attached to respondent's complaint showed that the land was in Augorio's name, clearly proving that the latter owned the property. Petitioner De Leon averred that the mortgage in his favor was registered with the Register of Deeds and that it had been amended four times.

Petitioner claimed that respondent Eduardo offered to settle the loan secured by the mortgage, but the negotiations fell through. He contended that respondent Eduardo was precluded from denying Augorio's title inasmuch as, during their negotiations for the settlement of the loan, respondent Eduardo never mentioned his alleged purchase or ownership of the property.

Petitioner De Leon pointed out that the Deed of Donation allegedly executed by Augorio in favor of respondent's

son Julsunthie was not registered and questioned its sudden appearance during the course of the trial. He argued that between a validly executed and registered real estate mortgage and a suspiciously executed deed of donation, the former must be given greater weight.

Lastly, petitioner contended that respondent Eduardo was an American citizen. Hence, under existing laws and the relevant provision of the Constitution, his alleged purchase of the property was illegal, even if he was actually the one who bought the property from its owners.

On the basis of the parties' evidence, the trial court declared the mortgage valid and petitioner De Leon to be a mortgagee in good faith and for value, and, therefore, he is entitled to the full protection of the law. It held that respondent Eduardo had no right to question the validity of the mortgage and that, between respondent's son Julsunthie and petitioner De Leon, the latter had a better right to the property considering that the Deed of Donation in favor of Julsunthie had not been registered. The pertinent portions of the trial court's decision read:

The evidence in the record shows that before the defendant Dr. Roberto de Leon mortgaged the property in question, he required the mortgagor Augorio Calalo to submit proofs to him that he is the owner of the property. Augorio Calalo submitted to him certificates and clearances from the Register of Deeds, the Assessor's Office, Treasurer's office, the barangay captain and also from the Municipal Trial Court of Olongapo City to prove that he is in fact the real owner of said property and that no person will object to the mortgage of the said property to him. He identified said documents which were marked as Exhibits "I" to "II" with sub-markings. That to protect their interest, they also made personal inquiries from the different government agencies as to who is the actual owner of said property and they found out that Augorio Calalo is the real owner of the property in question. Defendant and his witness Dr. Rementilla likewise inspected the property in question more or less two to three times and found out that the property is owned by Augorio Calalo who is living and occupying the said property. That when they found out that the real owner of the property in question is Augorio Calalo it is only then that Dr. de Leon entered into a contract of mortgage with Augorio Calalo.

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Plaintiff, by his own declaration in the witness stand, admitted that he is an American citizen. While he was formerly a Filipino by birth, after his service in the United States Navy, ultimately he became an American citizen.

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Even Eduardo Calalo's son Julsunthie Calalo is not also eligible to contest or question the validity of the mortgage although Augorio Calalo executed a Deed of Donation in his favor duly accepted by him and his father, the plaintiff, because the Deed of Donation was never registered with the Register of Deeds. Between the Donee Julsunthie Calalo and the defendant Dr. Roberto de Leon, the latter has a far better superior legal right and lien to the property than the former.

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As a mortgagee, considering that the period of the mortgage has already long expired he has the right to foreclose the property subject of the mortgage, for failure of the mortgagor to comply with their agreement.

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Evidence presented by defendant Dr. Roberto de Leon shows that on September 1, 1988, he executed jointly a Real Estate Mortgage with Augorio Calalo, the registered owner of the property in the amount of P250,000.00 at the rate of 5% interest per month. On September 30, 1988, an Amendment of the Mortgage was executed by both Augorio Calalo and defendant Dr. Roberto de Leon for an additional P250,000.00 mortgage. Summing up

[the] two mortgages, the total consideration is P500,000.00 (Pls. see Exhibits “10” and “11” of the defendant. The principal amount therefore of the two mortgages is P500,000.00).

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The fourth pivotal issue is whether or not the plaintiff has a right to file an action against defendant Augorio Calalo. Considering that defendant Augorio Calalo has breached the trust and confidence of the plaintiff the latter has a valid right to file an action against him. However, though Augorio Calalo failed to file his answer within the reglementary period, he was never declared in default by the plaintiff.

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WHEREFORE, . . . finding the evidence adduced by the defendant, Dr. Roberto de Leon preponderant over the evidence presented by the plaintiff, this Court finds Dr. Roberto de Leon to be a mortgagee in good faith and for value and the two mortgages executed between him and defendant Augorio Calalo are considered valid and enforceable and, in view thereof, this Court hereby orders the mortgagor Augorio Calalo or plaintiff’s son Julsunthie Calalo if he has already registered the Deed of Donation executed in his favor with the Register of Deeds, to redeem the propert[ies] by paying the amount of the principal indebtedness including interests, attorney’s fees, publication and sheriff’s fees in the amount of P1,500,000.00 within ninety (90) days from receipt of a copy of this decision pursuant to Section 2, Rule 68 of the Rules of Court. Should said mortgagor Augorio Calalo or plaintiff’s son Julsunthie Calalo fail to comply with the order of this Court to register said Deed of Donation and fail to pay the total obligation of P1,500,000.00 to the defendant Dr. Roberto de Leon, the sheriff of this Court is hereby ordered to sell the mortgaged properties in question at public auction to satisfy the amount of the total indebtedness, interests, attorney’s fees, publication, and sheriff’s fees and costs pursuant to the provision of Section 3, Rule 68 of the Rules of Court.

SO ORDERED. [2]

On appeal by respondent Eduardo, the Court of Appeals reversed and ordered the case remanded for the following reasons:

Subject to the rule on joinder of indispensable parties, the action will only prosper upon a finding that ownership of the property in question belongs to either Eduardo or Julsunthie. For then, Augorio would have no capacity to mortgage said property (Art. 2085[2], New Civil Code).

Consequently, the action revolves around the issues of (i) who, among Eduardo, Augorio and Julsunthie, is the true owner of the subject property; and (ii) whether the mortgage thereof in favor of Dr. de Leon is valid. But these issues cannot be resolved without delving into the validity of, among others, the alleged donation in favor of Julsunthie.

Eduardo is not the real party-in-interest in respect to the vindication of Julsunthie’s claim of ownership of the subject property anchored on the asserted donation (Sec. 2, Rule 3, 1997 Rules of Civil Procedure).

Julsunthie is an indispensable party since he is “one whose interest will be affected by the court’s action in the litigation, and without whom no final determination of the case can be had.” (Servicewide Specialists, Inc. vs. Court of Appeals, 318 SCRA 493). Any decree concerning the subject property will necessarily affect his rights; however, he was not impleaded in the case.[3]

Petitioner De Leon filed a motion for reconsideration, but, as it was denied, he bought this petition for review on certiorari.

After due consideration on the merits, we hold that the decision of the Court of Appeals should be reversed and that of the trial court should be reinstated. The question in this case is the validity of the mortgage executed by Augorio Calalo in favor of petitioner De Leon. There is no dispute that the land subject of the mortgage is titled in

the name of Augorio Calalo. Nor is there any question that petitioner De Leon did not know of the claim of ownership of respondent Eduardo Calalo until after the present action was instituted. As the trial court found, petitioner De Leon examined the relevant documents pertaining to the land, consisting of the transfer certificate of title, the tax declarations in the City Assessor's Office and information on the records in the barangay, and found that the land was registered in the name of Augorio Calalo. Upon due inspection of the property, he also found it to be occupied by Augorio Calalo. Petitioner had no reason to believe that the land did not belong to Augorio. Persons dealing with property covered by a torrens certificate of title, as buyers or mortgagees, are not required to go beyond what appears on the face of the title. The public interest in upholding the indefeasibility of torrens titles, as evidence of the lawful ownership of the land or of any encumbrance thereon, protects buyers or mortgagees who, in good faith, rely upon what appears on the face of the certificate of title.[4] Petitioner De Leon is a mortgagee in good faith.

Whether the money used in acquiring the property from the original owners came from respondent Eduardo Calalo and the title to the property was placed in the name of his brother Augorio Calalo only because respondent thought he was not qualified to acquire lands in the Philippines because he had become an American citizen, and that the land was subsequently donated to respondent Eduardo's son, Julsunthie, are matters not known to petitioner. Hence, whether Augorio Calalo committed a breach of trust and whether the property was validly donated to petitioner's son Julsunthie are questions which must be resolved in a separate proceeding. We can only decide in this case the validity of the mortgage, the right of petitioner to foreclose the property, and the right of redemption that may be exercised by Augorio or Julsunthie Calalo. As far as these issues are concerned, the evidence fully sustains the trial court's decision that the mortgage executed by Augorio Calalo in favor of petitioner is valid, the latter having acted in good faith by relying on the title of Augorio Calalo.

WHEREFORE, the decision of the Court of Appeals is REVERSED and that of the trial court is REINSTATED.

SO ORDERED.

Bellosillo, Quisumbing, and Callejo, Sr., JJ., concur.

Austria-Martinez, J., on leave.

[1] Per Justice Edgardo P. Cruz.

[2] Rollo, p. 70.

[3] Id., p. 119.

[4] Cavite Development Bank v. Lim, 324 SCRA 346 (2000). See also Cabuhat v. Court of Appeals, G.R. No. 122425, September 28, 2001; The Malayan Bank v. Lagrama, 357 SCRA 429 (2001); Cebu International Finance Corporation v. Court of Appeals, 268 SCRA 178 (1997).

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