

SPOUSES BIENVENIDO R. MACADANGDANG AND VIRGINIA C. MACADANGDANG, PETITIONERS VS. SPOUSES RAMON MARTINEZ AND GLORIA F. MARTINEZ, RESPONDENTS.

G.R. NO. 158682. January 31, 2005

Ponente: CORONA, J.

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CORONA, J.:

Petitioners, spouses Bienvenido and Virginia Macadangdang (Macadangdang spouses), assail the October 25, 2001 decision[1] of the Court of Appeals in CA-G.R. CV No. 32018, modifying the November 13, 1990 decision[2] of Branch 149 of the Makati Regional Trial Court in Civil Case No. 88-796.

The present controversy involves a house and lot in Lot 6, Block 22-A, Phase 5-A, Parkhomes Subdivision, Tunasan, Muntinlupa, Metro Manila, covered by TCT No. 146553 in the name of Emma A. Omalin.

On December 20, 1986, the Macadangdang spouses offered to buy the subject property from Omalin for P380,000 on installment basis.

On the same date, the Macadangdang spouses made a downpayment of P5,000 through the broker, Sto. Nino Realty Services, Inc. On January 3, 1987, they paid another P175,000. Thereafter, Omalin executed a deed of sale with mortgage dated January 5, 1987. The deed provided for the payment of the balance of P200,000 in three installments.

The Macadangdang spouses took possession of the house and lot on January 18, 1987. On April 22, 1987, they paid P60,000 and on October 1, 1987, another P30,000. After the Macadangdangs had paid a total of P270,000, the parties agreed that the balance of P110,000 was to be paid upon delivery of the TCT.

On January 29, 1988, Omalin executed a deed of absolute sale in favor of the Macadangdang spouses. However, the latter did not pay the P110,000 balance because Omalin failed to deliver the TCT. It turned out that the property was mortgaged to private respondent spouses Ramon and Gloria Martinez (Martinez spouses).

It appears that on March 5, 1987, a certain Atty. Paterno Santos, a broker, offered to mortgage the subject property to the Martinez spouses for P200,000. Atty. Santos was in possession of a “clean” TCT No. 146553 and a fire insurance policy covering said property. The spouses Martinez accepted the mortgage with interest at 36% p.a. and duly recorded it at the Registry of Deeds of Makati. The proper annotation was made at the back of the title.

From September 1987 to March 9, 1988, Omalin paid the monthly interest of P6,000 but failed to pay the subsequent interest from April 1988 to October 1989 amounting to P114,000.

The Macadangdang spouses filed a criminal case for estafa against Omalin and a combined action for specific performance, annulment of contract and damages against the spouses Martinez and Omalin.

After trial, the Makati RTC rendered a decision in favor of the Macadangdang spouses:

WHEREFORE, in view of the foregoing, judgment is rendered as follows:

- The defendants Emma A. Omalin, Ramon Martinez and Gloria Martinez are hereby ordered to deliver to the plaintiffs the owner's duplicate copy of TCT No. 146553, free from the encumbrance under Entry No. 30110 of the Register of Deeds of Makati, upon plaintiffs' payment of the balance of P100,000.
- The defendant Emma A. Omalin is hereby ordered to pay plaintiffs the amount of P30,000 as moral damages and P20,000 as attorney's fees and costs of suit.[3]

On appeal, however, the appellate court modified the decision of the Makati RTC:

Considering that defendant Omalin remains to be the owner of the property despite the existence of a valid mortgage, she has the right to sell it. Hence, we rule that the sale in favor of plaintiffs-appellee is likewise valid, subject to the right of defendants-appellants to foreclose the property for failure of defendant Omalin to pay her indebtedness.

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WHEREFORE, the appealed decision is MODIFIED. A new one is hereby entered:

1. Declaring defendants-appellants Ramon and Gloria Martinez as mortgagees in good faith.
2. Declaring the deed of sale with mortgage in favor of plaintiffs-appellees Bienvenido and Virginia Macadangdang as valid and ordering them to pay defendant Omalin the balance of the price in the sum of P110,000.
3. Ordering defendants-appellants to deliver the owner's duplicate copy of TCT No. 146553 to plaintiffs-appellees, subject to the existing encumbrance and the right of defendants-appellants to foreclose the property should defendant Omalin fail to pay her obligation.
4. Ordering defendant Emma A. Omalin to pay plaintiffs-appellees the amount of P30,000 as moral damages and P20,000 as attorney's fees and costs of suit.

The Macadangdang spouses are now before the Court with the following assignments of error:

FIRST ASSIGNED ERROR

THE COURT OF APPEALS' "DECISION" OPENLY DISREGARDED AND OVERTURNED EXISTING JURISPRUDENCE INVOLVING SIMILAR FACTS.

SECOND ASSIGNED ERROR

UNLESS REVERSED AND/OR MODIFIED, THE COURT OF APPEALS' DECISION, IF EVENTUALLY IMPLEMENTED, MIGHT GIVE RISE TO ABSURD RESULTS.

THIRD ASSIGNED ERROR

THE COURT OF APPEALS GRAVELY ERRED IN REVERSING THE TRIAL COURT'S DECISION DATED NOVEMBER 13, 1990.[4]

The petition lacks merit.

The subject matter of the instant petition involves registered land. Unlike the case of unregistered land, in which an earlier instrument, be it sale or mortgage, prevails over a latter one, and the registration of any one of them is immaterial,[5] with respect to registered land, the rule is different. Between two transactions concerning the same parcel of land, the registered transaction prevails over the earlier unregistered right.[6] The act of registration operates to convey and affect the registered land so that a bonafide purchaser of such land acquires good title as

against a prior transferee, if such prior transfer was unrecorded.[7]

Sections 51 and 52 of PD 1529, otherwise known as the Property Registration Decree, are pertinent:

Sec. 51. Conveyance and other dealings by registered owner. – An owner of registered land may convey, mortgage, lease, charge or otherwise deal with the same in accordance with existing laws. He may use such forms of deeds, mortgages, lease or other voluntary instruments as are sufficient in law. But no deed, mortgage, lease or other voluntary instrument, except a will purporting to convey or affect registered land shall take effect as a conveyance or bind the land, but shall operate only as a contract between the parties and as evidence of authority to the Register of Deeds to make Registration.

The act of registration shall be the operative act to convey or affect the land insofar as third persons are concerned, and in all cases under this Decree, the registration shall be made in the office of the Register of Deeds for the province or city where the land lies.

Sec. 52. Constructive notice upon registration. – Every conveyance, mortgage, lease, lien attachment, order, judgment, instrument or entry affecting registered land shall, if registered, filed or entered in the office of the Register of Deeds for the province or city where the land to which it relates lies, be constructive notice to all persons from the time of such registering, filing or entering.

It is clear from the foregoing that the registration of the deed is the effectual act which binds the land insofar as third persons are concerned. Prior registration of a lien creates a preference as the act of registration is the operative act that conveys and affects the land.[8] Considering that the prior sale of the subject property to the Macadangdang spouses was not registered, it was the registered mortgage to the spouses Martinez that was valid and effective. For sure, it was binding on Omalin and, for that matter, even on the Macadangdang spouses, the parties to the prior sale.

The rule on prior registration is subject only to one exception, that is, when a party has knowledge of a prior existing interest which is unregistered at the time he acquires a right to the same land, his knowledge of that prior unregistered interest has the effect of registration as to him.[9]

The Martinez spouses claimed they had never met the Macadangdang spouses and were unaware that Omalin had already sold the property to them. Hence, the appellate court declared the Martinez spouses as mortgagees in good faith and innocent mortgagees for value.

An innocent mortgagee for value is akin to an innocent purchaser for value. The phrase “innocent purchaser for value” is deemed to include an innocent lessee, mortgagee or other (beneficiary of an) encumbrance for value.[10] An innocent purchaser for value is one who buys the property of another without notice that some other person has a right to or interest in such property and pays a full and fair price for the same at the time of such purchase or before he has notice of the claim of another person.[11] As a general rule, where the certificate of title is in the name of the vendor when the land is sold, the vendee for value has the right to rely on what appears on the face of the title and is not obligated to look beyond what appears on the face of the certificate of title of the vendor. As an exception, the vendee is required to make the necessary inquiries if there is anything in the certificate of title which raises any cloud or vice in the ownership of the property.[12] Otherwise, his mere refusal to believe that such defect exists, or his willful disregard of 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 is 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.[13]

Nothing on record shows that the title of Omalin, the mortgagor, was flawed when it was presented to the spouses Martinez. Their reliance on the title was therefore reasonable and correct. They were in no way obliged to go

beyond the TCT to determine the legal condition of the property since there was nothing that should have aroused their suspicion about any defect or problem about the title.

Where innocent third persons rely on the lack of defect of a certificate of title and acquire rights over the property, the Court cannot disregard such rights. Otherwise, public confidence in the certificate of title and ultimately, in the entire Torrens system will be impaired, for every one dealing with registered property will have to inquire at every instance whether the title has been regularly or irregularly issued.[14]

On this note, being innocent registered mortgagees for value, the Martinez spouses acquired a superior right over the property.

Accordingly, we find no reversible error by the appellate court in upholding the existing encumbrance over the subject property acquired by the Macadangdang spouses, in declaring the spouses Martinez as mortgagees in good faith and in recognizing their right to foreclose on the mortgage should Omalin fail to pay her obligation.

The assailed decision of the appellate court is neither absurd nor unjust. The registered mortgage contract of the Martinez spouses has given them the superior right, not as owners but only as mortgagees. Consequently, they are entitled to be paid the amounts due them under the real estate mortgage registered in their favor. In the event Omalin, as mortgagor, fails to pay the mortgage obligation or, should any party, for that matter, who may have an interest in the mortgaged property like the petitioners herein fail to redeem it from the mortgagees, the latter, as declared by the Court of Appeals, may enforce their rights against the property by foreclosing on the mortgage, regardless of who its owner may be, considering that the registered mortgage attaches to the property.

WHEREFORE, the instant petition is hereby DENIED and the October 25, 2001 decision of the Court of Appeals in CA-G.R. CV No. 32018 is AFFIRMED.

Costs against petitioners.

SO ORDERED.

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

[1] Penned by Associate Justice Ruben T. Reyes and concurred in by Associate Justices Renato C. Dacudao and Mariano C. del Castillo of the Tenth Division.

[2] Penned by then Judge Consuelo Yñares Santiago, RTC Branch 149, Makati (now Associate Justice of the Supreme Court).

[3] Rollo, p. 115.

[4] Rollo, p. 13.

[5] Noblejas, Registration of Land Titles and Deeds, 1992 Revised Edition, p. 498-499 citing Mota v. Concepcion, 56 Phil. 712 (1932).

[6] Tuazon v. Raymundo, 28 Phil 635 (1914).

[7] Noblejas, supra, p. 499.

[8] Lu v. IAC, G.R. No. 70149, 30 January 1989, 169 SCRA 595.

[9] Gustillo v. Maravilla, 48 Phil 442 (1925).

[10] Sec. 32 Presidential Decree 1529.

[11] *Hemedes v. Court of Appeals*, 374 Phil. 692 (1999) citing *Legarda v. Court of Appeals, et al.*, 345 Phil. 889 (1997).

[12] *Heirs of Leopoldo Vencilao, Sr. v. Court of Appeals*, 351 Phil. 823 (1998), citing *Pino v. Court of Appeals*, G.R. No. 94114, 19 June 1991, 198 SCRA 434, citing *Centeno v. Court of Appeals*, No. L-40105, 11 November 1985, 139 SCRA 545.

[13] *Leung Yee v. Strong Machinery, Co.*, 37 Phil. 644 (1918).

[14] *Hemedes v. Court of Appeals*, 374 Phil. 692 (1999).

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