

DAVID SIA TIO AND ROBERT SIA TIO, PETITIONERS, VS. LORENZO ABAYATA, TEODULO ABAYATA, FELICIANO ABAYATA MIRANDO, AUREA ABAYATA GODINEZ, DOLORES ABAYATA PULVERA, CASILDA ABAYATA B...

G.R. No. 160898. June 27, 2008

Ponente: AUSTRIA-MARTINEZ, J.

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AUSTRIA-MARTINEZ, J.:

Assailed in the present Petition for Review on Certiorari under Rule 45 of the Rules of Court is the Decision[1] dated May 6, 2003 and Resolution[2] dated October 8, 2003, rendered by the Court of Appeals (CA) in CA-G.R. CV No. 56665, dismissing the appeal of David Sia Tio and Robert Sia Tio (petitioners) and affirming the Decision dated November 29, 1996 of Regional Trial Court (RTC) of Lapu-Lapu City, Branch 54, in Civil Case No. 2230-L.

Civil Case No. 2230-L is an action for annulment of mortgage, mortgage sale, a subsequent sale and certificates of title, filed by the successors-in-interest of Celedonio Abayata (respondents) with the RTC on March 12, 1990. It was respondents' contention that they are the absolute owners of the property in dispute, a 1,868-square meter parcel of land located in Lapu-Lapu City, Cebu, by virtue of a final Decision dated November 26, 1986, rendered by the RTC of Lapu-Lapu City, Branch 27, in Civil Case No. 620-L.[3] Respondents alleged that through machinations, defendant Benjamin Lasola (Lasola) was able to register the property in his name under Transfer Certificate of Title (TCT) No. 11428 and mortgage it to secure a loan from the Commercial Rural Bank of Tabogon (Cebu), Inc. (Rural Bank). In turn, the Rural Bank foreclosed the mortgage and sold the property to petitioners who registered the property under TCT No. 20006.

Petitioners and the Rural Bank filed their respective Answers claiming that they were innocent purchasers for value and in good faith. Defendant Lasola and his wife were declared in default.[4]

On November 29, 1996, the RTC rendered its Decision in favor of respondents. The dispositive portion of the RTC Decision reads:

WHEREFORE, premises considered, the Court renders judgment for the plaintiffs [respondents] and against the defendants [petitioners together with Lasola and Rural Bank] and hereby:

- a) Declares Transfer Certificate of Title No. 11428 in the name of defendant Benjamin S. Lasola, Jr. as null and void;
- b) Declares the real estate mortgage entered by defendants Lasolas and Community Rural Bank of Tabogon (Cebu), Inc. as null and void;
- c) Declares the subsequent auction sale and the certificate of sale, as well as the definite deed of sale, as null and void;

- d) Declares the Deed of Sale dated May 30, 1989 (Exhibit "10") in favor of defendants Tios as null and void;
- e) Declares Transfer Certificate of Title No. 20006 in the names of defendants David Sia Tio and Robert Sia Tio as null and void;
- f) Declares the plaintiffs as the absolute owners of Lot No. 1, the property subject of this controversy, and orders the Register of Deeds of Lapu-lapu City to issue a new certificate of title in their names;
- g) Orders the defendants to pay plaintiffs jointly and severally the sums of P20,000.00 as moral damages and P20,000.00 as attorney's fees;
- h) Orders the defendants to pay the costs of this suit;
- i) Dismisses all counterclaims for lack of merit.

SO ORDERED.[5]

The petitioners and the Rural Bank appealed to the CA. In the assailed Decision dated May 6, 2003, the CA dismissed the appeals, to wit:

WHEREFORE, premises considered, the assailed decision dated November 29, 1996 is hereby AFFIRMED in toto, and the present appeals are hereby DISMISSED for lack of merit.

SO ORDERED.[6]

Petitioners filed a motion for reconsideration but it was denied by the CA in its Resolution dated October 8, 2003.

Hence, the present petition on the following grounds:

- That with grave abuse of discretion amounting to excess of jurisdiction, the lower court grossly erred: that even granting arguendo that defendant Benjammin Lasola and defendant-appellant Community Rural Bank of Tabogon (Cebu) Inc., acted in good faith in not disclosing to the petitioners the existence of civil case No. 620-L, RTC-Lapu Lapu City, Branch 27, decided on November 26, 1986, and/or annotating the notice of lis pendens, the lower court did not declare that the plaintiffs, the Abayatas now respondents were also Equally Guilty of BAD FAITH in not complying with the mandate of Sec. 14, Rule 13, Rules of Court and Section 78, PD 1529, thus said plaintiffs and defendants defeated the laudable purpose of the said laws;
- That with grave abuse of discretion the lower court did not apply the second part of Sec. 1 Art. III, Constitution which mandates equal protection of law to all persons.
- That with grave abuse of discretion, the lower court wittingly or unwittingly, failed to award to the petitioners, the amount of damages stated in the counter claim and cross-claim, considering that the cross-defendants Rural Bank of Tabogon (Cebu) Inc., and defendant Benjamin Lasola as well as the plaintiffs/respondents were all guilty of Bad faith;
- That with grave abuse of discretion, the lower court erred in not dismissing outright this case by reason of prescription, pursuant to Art. 1391 Civil Code and/or laches;
- That with grave abuse of discretion, the lower court erred in concluding that the P100,000.00 loan of Benjamin Lasola from the Bank with a collateral allegedly worth of P800,000.00 excites suspicion, hence, both defendants-appellants were guilty of Bad faith.[7]

As a preliminary matter, the Court notes a formal defect in the petition in that spouses Lasola and the Rural Bank were not impleaded as parties to the present petition; rather, they were merely mentioned in the title as defendants-appellants, their designation in the appeal before the CA. Under Section 4(a), Rule 45 of the Rules of Court, it is required that the petition shall state the full names of the appealing party as the petitioner and the

adverse party as the respondent, without impleading the lower courts or judges thereof either as petitioners or respondents. The Lasolas and the Rural Bank are undoubtedly adverse parties, specially since petitioners have a cross-claim against them;^[8] and one of the issues, including their arguments, raised in their petition involves said parties.^[9] The result of such failure, fundamentally, will be that said parties cannot be compelled to abide by and comply with the Court's Decision, as it will not be binding on them. No man shall be affected by any proceeding to which he is a stranger, and strangers to a case are not bound by any judgment rendered by the court.^[10]

Nonetheless, the Court may disregard such flaw^[11] since no prejudice will be caused to said parties, as they were original parties before the RTC;^[12] and the Rural Bank, which was furnished all the pleadings and resolutions in this petition, even filed its own Comment^[13] and Memorandum^[14] before the Court.

The principal issue in this case is whether petitioners are innocent purchasers for value and in good faith.

As a general rule, the question of whether or not a person is a purchaser in good faith is a factual matter that will not be delved into by this Court, since only questions of law may be raised in petitions for review.^[15] The rule, however, admits of certain exceptions, to wit:

- (1) when the findings are grounded entirely on speculation, surmises or conjectures;
- (2) when the inference made is manifestly mistaken, absurd or impossible;
- (3) when there is grave abuse of discretion;
- (4) when the judgment is based on a misapprehension of facts;
- (5) when the findings of fact are conflicting;
- (6) when in making its findings the Court of Appeals went beyond the issues of the case, or its findings are contrary to the admissions of both the appellant and the appellee;
- (7) when the findings are contrary to the trial court;
- (8) when the findings are conclusions without citation of specific evidence on which they are based;
- (9) when the facts set forth in the petition as well as in the petitioner's main and reply briefs are not disputed by the respondent;
- (10) when the findings of fact are premised on the supposed absence of evidence and contradicted by the evidence on record; and
- (11) when the Court of Appeals manifestly overlooked certain relevant facts not disputed by the parties, which, if properly considered, would justify a different conclusion.^[16] (Emphasis supplied)

In the present case, a review of the records shows that both the RTC and the CA not only misapprehended but also overlooked relevant facts which warrant a reversal of their respective Decisions and a dismissal of Civil Case No. 2230-L

To begin with, in claiming ownership over the property, respondents chiefly relied on the Decision dated November 26, 1986, rendered by the RTC of Lapu-Lapu City, Branch 27, in Civil Case No. 620-L, which was an action for the recovery of property and ownership filed by Lasola against them. In Civil Case No. 620-L, Lasola posited that he is the owner of the property and is entitled to its possession by virtue of the Deed of Sale executed between him and the respondents' predecessor-in-interest, Celedonio Abayata. In the RTC Decision dated November 26, 1986, the sale between Lasola and Abayata was pronounced as one of equitable mortgage. The dispositive portion of said Decision reads:

WHEREFORE, judgment is hereby rendered in favor of the defendants [respondents] and against the plaintiff [Lasola] declaring the deed of sale Exhibit I, an equitable mortgage and allowing the defendants to redeem the property for P27,440.00 within thirty (30) days from the date this judgment becomes final and executory. Failure on the part of the defendants to redeem the property within the period specified above, the property in question is hereby ordered sold at public auction in order to realize the sum of P27,440.00 payable to the plaintiff as redemption price and the legal expenditures in connection thereto. Whatever proceeds thereof is hereby ordered turned over to the defendants. Without pronouncement as to costs.

SO ORDERED.[17] (Emphasis supplied)

Based on said Decision, respondents filed Civil Case No. 2230-L, the progenitor of the present petition against the petitioners, Lasola and the Rural Bank.

An equitable mortgage has been defined as one which although lacking in some formality, or form or words, or other requisites demanded by a statute, nevertheless reveals the intention of the parties to charge real property as security for a debt, and contains nothing impossible or contrary to law.[18] The mortgagor retains ownership over the property but subject to foreclosure and sale at public auction upon failure of the mortgagor to pay his obligation.[19]

The Court notes, however, that there is a dearth of evidence in Civil Case No. 2230-L that will prove that respondents, or their predecessor-in-interest, Celedonio Abayata (Celedonio), redeemed the property in the amount and within the period provided by the RTC in Civil Case No. 620-L. Respondents even failed to allege in their complaint in Civil Case No. 2230-L that they were able to pay off their monetary obligation to Lasola. It was patently erroneous for the RTC to categorically rule that Celedonio retained title to the property and respondents became owners thereof by succession in the absence of any allegation or evidence that will establish that Celedonio or respondents were able to redeem the property within 30 days from the time the judgment in Civil Case No. 620-L became final and executory.[20] Such failure on respondents' part is fatal, as they failed to lay the basis for their right to file Civil Case No. 2230-L.

Even assuming that, indeed, they are the rightful owners of the subject property at the time of the filing of Civil Case No. 2230-L, the Court finds that ownership of the property has already been legitimately transferred to petitioners who are innocent purchasers for value and in good faith.

Ineluctably, the Rural Bank is a mortgagee in bad faith. Records confirm that the Rural Bank did not exercise the due diligence required of banking and financial institutions before entering into the mortgage contract with Lasola. As aptly found by the RTC:

[D]efendant Rural Bank was not a mortgagee in good faith because of its failure to examine more closely the title of the mortgagors despite the first-hand knowledge that other persons, and not the would-be mortgagors, were in possession of the property. The very fact that the lot was not in the possession of the Lasolas should have put the defendant bank on guard and prompted it to make a more thorough inquiry into the ownership of the lot. x x x the defendant Rural Bank relied on the representation of Benjamin Lasola that the residents on the lot were squatters. There is no showing that it inquired from the residents themselves as to who the real owners were, something it would have done if it were reasonably diligent and prudent in verifying the true ownership of the lot. Instead, as testified to by Mrs. Lechido, the bank relied merely on the declarations of Benjamin Lasola and one resident on the lot that the houses were built and occupied by squatters. x x x[21]

As a banking institution, it is expected to exercise due diligence before entering into a mortgage contract. The ascertainment of the status or condition of a property offered to it as security for a loan must be a standard and indispensable part of its operations.[22]

Moreover, it did not appeal the CA Decision dated May 15, 2003 and Resolution dated October 6, 2003, which affirmed the RTC Decision dated November 29, 1996. Thus, for all intents and purposes, the RTC's finding that the Rural Bank was a mortgagee in bad faith is final and binding upon it.[23]

The subject property was acquired by the Rural Bank in a foreclosure proceeding as the highest bidder for which a Certificate of Sale and "Definite Deed of Sale" were issued by the Sheriff in its favor; and was subsequently sold by the Rural Bank to petitioners who, as borne out by evidence, are purchasers in good faith.

The doctrine that a fraudulent title may be the root of a valid title in the name of an innocent buyer for value and in good faith[24] applies to petitioners.

A purchaser in good faith 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.[25] The sources of notice are the title, the recordings on the title and the land itself.

The rule has always been that every person dealing with registered land may safely rely on the correctness of the certificate of title issued therefor and the law will in no way oblige him to go beyond the certificate to determine the condition of the property. Where there is nothing in the certificate of title to indicate any cloud or vice in the ownership of the property, or any encumbrance thereon, the purchaser is not required to explore further than what the Torrens Title upon its face indicates in quest for any hidden defects or inchoate right that may subsequently defeat his right thereto.[26] However, where the land sold is in the possession of a person other than the vendor, the purchaser must go beyond the certificate of title and make inquiries concerning the actual possessor. A buyer of real property which is in 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 and cannot have any right over the property.[27]

Petitioners bought the property in 1989 from the Rural Bank. While at the time of the sale, title to the property still remained in the name of Lasola, the Rural Bank had documents showing that it bought the property in a valid foreclosure proceeding. Notices of extra-judicial sale were published.[28] An auction sale was held with the Rural Bank as the lone and highest bidder.[29] A Certificate of Sale was issued by the Deputy Provincial Sheriff in favor of the Rural Bank.[30] After the lapse of the one-year redemption period, a Definite Deed of Sale was executed by the RTC-Cebu Sheriff in favor of the Rural Bank.[31] The Certificate of Sale and the Definite Deed of Sale, including the Real Estate Mortgage between Lasola and the Rural Bank, were inscribed on Lasola's title.[32] What's more, petitioners even went beyond the Rural Bank's documents and together with a Rural Bank representative, inspected the property. When confronted with the presence of houses on the property, they were led to believe by the Rural Bank's representative that the occupants were merely squatters whose occupation was being tolerated by the Rural Bank.[33]

It should be emphasized that the prudence required of petitioners is not that of a person with training in law, but rather that of an average man who "weighs facts and circumstances without resorting to the calibration of our technical rules of evidence of which his knowledge is nil." Rather, he relies on the calculus of common sense of which all reasonable men have an abundance. And, "by law and jurisprudence, a mistake upon a doubtful or difficult question of law may properly be the basis of good faith." [34]

Thus, since petitioners were without actual notice of respondents' claim of ownership over the property, and which claim was not discoverable by them after examining the title, the annotations on the title, and an observation of the property, then they are entitled to a good faith status.

Besides, respondents have only themselves to blame. They are guilty of laches. As early as the filing of Civil Case

No. 620-L some time in 1982,[35] they were well aware that the property was already titled in Lasola's name.[36] From that date, up to the time the RTC rendered its Decision in 1986, they did not do anything to protect their rights over the property. First, they did not cause an inscription of a notice of lis pendens on Lasola's title. Without a notice of lis pendens, a third party who acquires the property after relying only on the certificate of title is a purchaser in good faith. Against such third party, the supposed rights of a litigant cannot prevail, because the former is not bound by the property owner's undertakings not annotated in the transfer certificate of title.[37] Second, respondents likewise did not cause an inscription of the subsequent RTC Decision on Lasola's title showing that they were given the right to redeem the property within 30 days from finality of the Decision dated November 26, 1986. Had they done so, petitioners would have been forewarned of the cloud of doubt hovering over Lasola's claim of ownership, and any transfer of the property to an innocent third person for value would have been avoided and the claim of the real owner preserved.[38] *Vigilantibus sed non dormientibus jura subveniunt*. The law aids the vigilant, not those who slumber on their rights.[39]

The RTC and the CA make much ado of the fact that petitioners bought the 1,686-square meter property in 1989 only at P150,000.00 or P88.96 per square meter, while the Bureau of Internal Revenue's zonal valuation thereof in 1990 was between P850.00 and P1,000.00 per square meter.[40] This argument however, is specious.

Mere inadequacy of price is not ipso facto a badge of lack of good faith. To be so, the price must be grossly inadequate or shocking to the conscience such that the mind revolts against it and such that a reasonable man would neither directly nor indirectly be likely to consent to it.[41] While there is an apparent wide disparity in the value of the subject property between 1989 and 1990, undisputed attendant circumstances show the reasonableness of the purchase price of the sale between Lasola and the Rural Bank. It must be stressed that the property was mortgaged by Lasola to the Rural Bank for P100,000.00. It was bought by the Rural Bank at the extra-judicial sale at P108,185.34. Also, the Certificate Authorizing Registration issued by the Bureau of Internal Revenue to petitioners shows that the prevailing fair market value of the property in 1989 was P85,260.00.[42] All these show that the price in the amount of P150,000.00 paid by petitioners for the purchase of the property was within reasonable bounds.

Finally, petitioners are not entitled to damages they prayed for in their counterclaim and cross-claim filed before the RTC. In order that moral damages may be awarded, there must be proof of moral suffering, mental anguish, fright and the like. While petitioners alleged in their Answer with counterclaim and cross-claim that they suffered mental anguish, serious anxiety and sleepless nights, they failed to prove them during the trial. There is nothing in their testimonies that will support their claim for damages. In fact, petitioner Robert Tio's testimony was not even offered by counsel for such purpose.[43] It should be stressed that mere allegations do not suffice; they must be substantiated by clear and convincing proof.[44]

Petitioners' prayer for exemplary damages cannot be sustained under Article 2234 of the Civil Code, to wit:

Article 2234. When the amount of the exemplary damages need not be proved, the plaintiff must show that he is entitled to moral, temperate or compensatory damages before the court may consider the question of whether or not exemplary damages would be awarded. In case liquidated damages have been agreed upon, although no proof of loss is necessary in order that such liquidated damages may be recovered, nevertheless, before the court may consider the question of granting exemplary in addition to the liquidated damages, the plaintiff must show that he would be entitled to moral, temperate or compensatory damages were it not for the stipulation for liquidated damages.

Petitioners failed to show that they are entitled to moral damages. They likewise failed to plead and prove that they are entitled to temperate or compensatory damages.

Also, petitioners are not entitled to attorney's fees and litigation expenses as the right to litigate should bear no premium.[45] In the same vein, the Court likewise denies petitioners' claim for damages against respondents since it has not been shown that the filing of the complaint before the RTC was imbued with bad faith.[46]

WHEREFORE, the petition is GRANTED. The Decision dated May 6, 2003 and Resolution dated October 8, 2003, rendered by the Court of Appeals in CA-G.R. CV No. 56665 are REVERSED and SET ASIDE and Civil Case No. 2230-L is DISMISSED.

Petitioners' counterclaim against respondents and cross-claim against the Commercial Rural Bank of Tabogon (Cebu), Inc. are DENIED for lack of merit.

SO ORDERED.

Ynares-Santiago, (Chairperson), Chico-Nazario, Nachura, and Reyes, JJ., concur.

* Benajamin A. Lasola, Jr., Columbina Montesclaros Lasola and the Community Rural Bank of Tabogon (Cebu), Inc., defendants-appellants in the Court of Appeals, were not included as parties in the present petition.

[1] Penned by Associate Justice B.A. Adefuin-Dela Cruz, with Associate Justices Jose L. Sabio, Jr. and Hakim S. Abdulwahid, concurring, rollo, p. 30.

[2] Id. at 54.

[3] Records, pp. 9-23.

[4] Rollo, p. 119.

[5] Records, p. 282.

[6] CA rollo, p. 207.

[7] Rollo, pp. 20-21.

[8] Records, pp. 32-33.

[9] Rollo, p. 13.

[10] Civil Service Commission v. Sebastian, G.R. No. 161733, October 11, 2005, 472 SCRA 364, 375.

[11] Asia Traders Insurance Corporation v. Court of Appeals, 467 Phil. 531, 536 (2004).

[12] The Lasola spouses were declared in default before the RTC, records, p. 90.

[13] Rollo, pp. 81-85.

[14] Id. at 105-130.

[15] Chua v. Soriano, G.R. No. 150066, April 13, 2007, 521 SCRA 68, 77.

[16] Id. at 77-78.

[17] Records, p. 23.

[18] Lumayag v. Heirs of Jacinto Nemeño, G.R. No. 162112, July 3, 2007, 526 SCRA 315, 325.

[19] Roberts v. Papio, G.R. No. 166714, February 9, 2007, 515 SCRA 346, 368.

[20] Supra note 17.

[21] Records, pp. 278-279.

[22] Bank of Commerce v. San Pablo, Jr., G.R. No. 167848, April 27, 2007, 522 SCRA 713, 728.

[23] Rural Bank of Sta. Maria, Pangasinan v. Court of Appeals, 373 Phil. 27, 45 (1999).

[24] Republic of the Philippines v. Agunoy, Sr., G.R. No. 155394, February 17, 2005, 451 SCRA 735, 738.

[25] Cruz v. Court of Appeals, 346 Phil. 506, 512 (1997).

[26] Chua v. Soriano, supra note 15, at 79.

[27] Philippine National Bank v. Heirs of Estanislao Militar, G.R. No. 164801, June 30, 2006, 494 SCRA 308, 315.

[28] Records, pp. 165-166.

[29] Id. at 167.

[30] Id.

[31] Id. at 168.

[32] Id. at 159-160.

[33] TSN, October 26, 1994, pp. 4-5.

[34] Philippine National Bank v. Heirs of Estanislao Militar, supra note 27, at 316-317.

[35] TSN, July 24, 1995, pp. 4-5.

[36] Records, p. 3.

[37] Heirs of Eugenio Lopez, Sr. v. Enriquez, G.R. No. 146262, January 21, 2005, 449 SCRA 173, 186-187.

[38] Id. at 190.

[39] Id. at 195.

[40] See RTC Decision, p. 15.

[41] Acabal v. Acabal, G.R. No. 148376, March 31, 2005, 454 SCRA 555, 573.

[42] Records, p. 174.

[43] TSN, January 23, 1996, pp. 3-4.

[44] Mahinay v. Velasquez, Jr., 464 Phil. 146, 149 (2004).

[45] Republic of the Philippines v. Lorenzo Shipping Corporation, G.R. No. 153563, February 7, 2005, 450 SCRA 550, 558.

[46] Industrial Insurance Company, Inc. v. Bondad, 386 Phil. 923, 934 (2000).

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