

**EASTWORLD MOTOR INDUSTRIES CORPORATION, REPRESENTED
BY ITS PRESIDENT, PETER TY, PETITIONER, VS. SKUNAC
CORPORATION, REPRESENTED BY ITS ALLEGED PRESIDENT LARRY
LIM; AND MIGUEL LI...**

G.R. NO. 163994. December 16, 2005

Ponente: PANGANIBAN, J.

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PANGANIBAN, J.:

This Court has consistently held that a reconstituted certificate of title is void if the owner's duplicate certificate is not lost or destroyed, but is in the possession of another person. Nonetheless, a valid transfer can issue from the void reconstituted title if an innocent purchaser for value intervenes. A finding of "good faith" and "for value" requires a judicious evaluation of the facts of each case.

The Case

Before us is a Petition for Review[1] under Rule 45 of the Rules of Court, assailing the November 5, 2003 Decision[2] and the June 3, 2004 Resolution[3] of the Court of Appeals (CA) in CA-GR SP No. 72615. The challenged Decision disposed as follows:

"WHEREFORE, foregoing premises considered, the Petition is hereby GRANTED. Resultantly, the assailed order of x x x RTC, Branch 4, Manila in LRC Case 309 is declared NULL and VOID for having been issued without jurisdiction. The Register of Deeds of Manila is ordered to cancel the new owner's duplicate copies pursuant to the assailed order. The writ of injunction issued is hereby made permanent. x x x Miguel Lim is ordered to pay [respondent corporation] attorney's fees in the amount of P150,000.00 and to pay the costs.

"The Intervention of Eastworld is hereby ordered DISMISSED."[4]

The assailed Resolution denied petitioner's Motion for Reconsideration.

The Facts

The CA narrates the facts as follows:

"Sometime in February 2, 2001, x x x Miguel Lim, then presenting himself as [p]resident of [respondent] corporation filed with x x x [the] Regional Trial Court, Branch 4, Manila[,] a petition for the issuance of a new transfer certificate of title in lieu of the lost TCT No. 207104 pursuant to RA 26 as amended by P.D. 1425.

"As one of the jurisdictional requirements, [Miguel Lim] executed an affidavit of loss and also attached a [photocopy] of the alleged title to the petition.

"On the basis of said proofs and compliance of other jurisdictional requirements[, the trial] court issued an order on March 7, 2001, setting the petition for ex-parte reception of evidence before LRA Clerk of Court Atty. Josefina L. Montañer. The reception of evidence was set on March 28, 2001, transcript of said proceedings [was] attached to [the] records.

"On May 22, 2001, [the trial] court issued an order directing the Register of Deeds of Manila to issue a new owner's duplicate of TCT No. 207104 in lieu of the lost one and to deliver the same to [Miguel Lim or his] authorized representative. A copy of said order was served upon a hand written request of [Miguel Lim] and on June 25, 2001 a certificate of finality was issued by the chief, clerks of court division of the Land Registration Authority.

"As a consequence, [a petition to annul order and injunction with prayer for a temporary restraining order was filed with the CA] with the lone issue raised, to wit:

'ISSUE

WHETHER OR NOT THE ORDER RENDERED BY THE REGIONAL TRIAL COURT OF MANILA, BRANCH 4 IS NULL AND VOID FOR LACK OF JURISDICTION.'

"In support of its submission, [respondent corporation] advance[d] the following arguments:

'DISCUSSION/ARGUMENTS

"In the above-mentioned Affidavit of Loss, x x x Miguel Lim falsely asserted that the owner's duplicate copy of TCT No. 207104 was lost.

"x x x Miguel Lim's above averment is a total lie, calculated to mislead the Regional Trial Court of Manila into issuing a new owner's duplicate copy of TCT No. 207104.

"The truth of the matter is that x x x Miguel Lim was fully cognizant that the owner's duplicate copy of TCT No. 207104 is in the custody and possession of Larry Lim, President of [respondent]-corporation.

"Miguel Lim was never in custody or possession of the said title.

"Clearly, the subject Order was issued on the basis of the false and fraudulent representation of x x x Miguel Lim, and is, therefore, null and void, and must be annulled and set aside."

"[Despite] due notice, [Miguel Lim] never filed any comment, much less a memorandum as required, [despite] the time extension granted him.

"On the other hand, [Petitioner] Eastworld Motor Industries Corporation, represented by its [c]hairman, Peter Ty filed a Motion to Intervene which [the Court of Appeals] granted in an Order dated January 14, 2003. Intervenor assert[ed] its ownership being a purchaser in good faith of such property. It submits that [respondent corporation] must bear the loss being responsible for the loss of title." [5]

Ruling of the Court of Appeals

Because the owner's certificate of title was not lost but was in fact in the possession of the true owner, the reconstituted one was deemed void and its cancellation ordered by the CA. [6]

The appellate court further ruled that petitioner was not a purchaser in good faith and for value. [7] The latter should have been on guard, because the Affidavit of Loss was annotated at the back of the reconstituted title. Moreover, petitioner verified the identity of the seller of the property only after the sale had taken place. [8]

Hence, this Petition. [9]

The Issues

Petitioner states the issues in this wise:

"Whether or not the Court of Appeals erred in declaring as null and void the reconstituted title more than one

(1) year after the same was issued.

"Whether or not the mere fact that the TCT 207104 shown to petitioner is a reconstituted one overturn the fact that petitioner is a purchaser in good faith and for value.

"Whether or not the Court of Appeals erred in dismissing petitioner's intervention. The nullification of the new (reconstituted) owner's duplicate certificate issued by the RTC Branch 4, Manila in LRC Case No. 309 cannot prejudice petitioner's rights.

"Whether or not the Court of Appeals erred in failing to note that it is Larry Lim's negligent act of failing to update the corporation's SEC documents which made the sale of the subject lot possible." [10]

The Court's Ruling

The Petition is partly meritorious.

Main Issue: Validity of the Reconstituted Title

Being intertwined, the second and the third issues raised by petitioner will initially be addressed by the Court. Also, a discussion of these issues will lead to a resolution of the first one.

At the outset, the Court observes that the applicable law in applying for a replacement of an owner's duplicate certificate of title is PD 1529. *New Durawood Company v. Court of Appeals* [11] clarified that RA No. 26 applies only in cases of reconstitution of lost original certificates on file with the Register of Deeds. [12] Respondent Miguel Lim procured the reconstituted title on the basis of RA No. 26.

At any rate, the procedure employed for the issuance of the reconstituted certificate of title has not been raised as an issue in the present case. The controversy relates primarily to petitioner's right as purchaser of the property covered by the replaced certificate.

Ownership Merely Evidenced by the Certificate of Title

This Court has consistently held that when the owner's duplicate certificate of title has not been lost, but is in fact in the possession of another person, then the reconstituted certificate is void, because the court that rendered the decision had no jurisdiction. [13] Reconstitution can validly be made only in case of loss of the original certificate. [14] The rationale for this principle is summarized in *Strait Times v. Court of Appeals*, [15] from which we quote:

"The reconstitution of a title is simply the reissuance of a new duplicate certificate of title allegedly lost or destroyed in its original form and condition. It does not pass upon the ownership of the land covered by the lost or destroyed title. Possession of a lost certificate is not necessarily equivalent to ownership of the land covered by it. The certificate of title, by itself, does not vest ownership; it is merely an evidence of title over a particular property. [16]

Applying the above ruling to the instant case, the certificate of title procured by Miguel Lim was clearly void. Respondent corporation's presentation of the original owner's duplicate certificate of title showed to the court the physical existence, and the corporation's possession, of the certificate. The existence of the document is in fact un rebutted by petitioner.

Buyers in Good Faith

Settled is the rule that no valid transfer certificate of title (TCT) can issue from a void TCT, unless an innocent purchaser for value had intervened. [17] 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 the property, for which a full and fair price is

paid by the buyer at the time of the purchase or before receipt of any notice of the claims or interest of some other person in the property.[18] The protection given to innocent purchasers for value is necessary to uphold a certificate of title's efficacy and conclusiveness, which the Torrens system ensures.[19]

In the last analysis, good faith, or the lack of it, is a question of intention. But in ascertaining the intention that impels one on a given occasion, the courts are necessarily controlled by the evidence as to the conduct and other outward acts by which the motive may safely be determined.[20] Naturally, a finding of good faith depends on the factual circumstances of each case. The absence of any knowledge or circumstance that ought to put a person on inquiry implies good faith.

CA's Finding NotSupported by Evidence

The evidence considered by the CA supposedly supported the finding that petitioner was not a purchaser in good faith and for value. This Court finds that evidence wanting. We quote the pertinent portion of the appellate court's Decision:

"x x x. A careful reading of TCT No. [207104] will readily show that the affidavit of loss which was the alleged basis for the issuance of a new title was annotated [at] the back of said title. x x x [Petitioner] could not close its eyes to such fact and that it should have been sufficient basis for it to be on guard and cause the necessary investigation as to the truth of the allegation contained in said affidavit of loss. Having failed to do so, it cannot claim that it is a purchaser in good faith.

"Besides, records undeniably show that the alleged SEC certification [petitioner] secured and which it now presents to [allege] good faith is dated only September 10, 2002. Clearly the same was secured long after the sale took place and only after [respondent] instituted the action to annul. Under such circumstances, the allegation of good faith is negated." [21]

The annotation of an affidavit of loss on a reconstituted certificate is a direct result of the reconstitution. The annotation does not necessarily categorize every purchaser of property covered by the reconstituted certificate as a purchaser in bad faith. As a rule, the annotation serves as a fair notice that the reconstituted certificate might be defective and inferior to an already existing original certificate of title. Hence, purchasers should make the necessary investigation regarding the procurement of property covered by a reconstituted certificate.[22]

The present case, however, presents circumstances that make such an investigation futile. Thus, the annotation of the Affidavit of Loss on the reconstituted certificate cannot, by itself, be the basis of a finding of either good or bad faith.

First, the property is titled under the name of respondent corporation, which was also the party that petitioned for the reconstituted certificate. Second, the Deed of Absolute Sale was executed on July 5, 2002, between petitioner and Skunac Corporation, as represented by Miguel Lim.[23] Third, the Verification and Certification attached to the Petition for the Issuance of Lost Owner's Copy of TCT was signed by Lim as president of the corporation.[24] Fourth, the Secretary's Certificate that authorized Lim for the judicial reconstitution of the lost duplicate original was prepared by Lani G. Wenceslao, the corporate secretary of Skunac Corporation.[25] Significantly, in the records of the Securities and Exchange Commission (SEC), both Lim and Wenceslao, both of whom are stockholders of respondent corporation,[26] appear as the president and the corporate secretary, respectively.[27]

This Court also disagrees with the CA's finding that the allegation of good faith was negated by the SEC Certification, which stated that Lim was president of Skunac Corporation. Although dated September 10, 2002, the Certification was not a substantial proof that petitioner had failed to verify the records prior to the sale on July 5, 2002.[28] The Certification had obviously been procured to address respondent's Petition to Annul the Order of judicial reconstitution, filed on September 4, 2002.[29] Moreover, the Certification simply confirmed that on June

10, 2002, prior to the sale, Lim was elected president.

Further Proceedings Necessary

The Court is not prepared to rule categorically that petitioner was a purchaser in good faith and for value, and therefore entitled to the property covered by the subject certificate of title. The right of respondent corporation to due process would be violated if it is not given the opportunity to prove that petitioner was not an innocent purchaser. Indeed, the CA should have ordered further proceedings to determine whether petitioner's right should prevail over respondent's.

The procedure to be followed when trial is necessary for cases involving the annulment of judgment is stated in Rule 47 of the Rules of Court:

"Sec. 6. Procedure. – The procedure in ordinary civil cases shall be observed. Should a trial be necessary, the reception of the evidence may be referred to a member of the court or a judge of a Regional Trial Court."

This Court observes that the assailed Decision failed to address many questions that may shed light on the present controversy, as follows: (1) How did Larry Lim obtain possession of the original duplicate certificate of title, when the SEC records were silent as to his involvement in the corporation? (2) Was the original duplicate certificate of title really lost? (3) Who was the true president of the corporation? (4) Was the corporation negligent in failing to update its SEC records? (5) Was the sale valid?

Petitioner's contention that the case had already been litigated when respondent allegedly filed an injunction case before the Regional Trial Court of Manila on August 29, 2002, should also be addressed.[30]

The instant case cannot be fully settled by voiding a reconstituted certificate on the basis of the existence of the duplicate original. The rights of a purchaser of the property covered by the reconstituted certificate should also be determined.

Another Issue:Indefeasibility of Title

Petitioner claims that the indefeasibility of a title one year after its entry bars respondent corporation from annulling the trial court's judgment. This argument must necessarily fail. As discussed earlier, the reconstituted certificate is void. Consequently, it may be attacked anytime.[31] *Demetriou v. Court of Appeals*[32] affirms that the remedy to nullify an order granting reconstitution is a petition for annulment under Rule 47 of the Rules of Court.[33]

WHEREFORE, the Petition is PARTLY GRANTED. The case is REMANDED to the appellate court for reception of evidence in conformity with this Decision. The assailed CA Decision is PARTLY AFFIRMED, only insofar as it declared the reconstituted certificate of title null and void.

No pronouncement as to costs.

SO ORDERED.

Sandoval-Gutierrez, Corona, Carpio-Morales, and Garcia, JJ., concur.

[1] Rollo, pp. 11-29.

[2] *Id.*, pp. 34-38. Sixth Division. Penned by Justice Jose L. Sabio Jr., with the concurrence of Justices Delilah Vidallon-Magtolis (Division chairperson) and Hakim S. Abdulwahid (member).

[3] *Id.*, p. 40.

[4] Id., pp. 37-38.

[5] Assailed Decision, pp. 2-3; rollo, pp. 35-36. Citations omitted.

[6] Id., pp. 4 & 37.

[7] Ibid.

[8] Ibid.

[9] The case was deemed submitted for decision on April 29, 2005, upon this Court's receipt of respondent's Memorandum, signed by Atty. Crisostomo A. Quizon. Petitioner's Memorandum, signed by Atty. Arniel N. Bondoc, was received by this Court on April 27, 2005.

[10] Petitioner's Memorandum, p. 5; rollo, p. 183.

[11] 324 Phil. 109, February 20, 1996.

[12] Id., p. 118.

[13] Rexlon Realty Group, Inc. v. Court of Appeals, 429 Phil. 31, 44, March 15, 2002; New Durawood Co., Inc. v. Court of Appeals, 324 Phil. 109, 120, February 20, 1996; Demetriou v. Court of Appeals, 238 SCRA 158, 162, November 14, 1994; Serra v. Court of Appeals, 195 SCRA 482, 494, March 22, 1991.

[14] Republic v. Feliciano, 148 SCRA 424, 432, March 12, 1987.

[15] 356 Phil. 217, August 28, 1998.

[16] Id., p. 230, per Panganiban, J.

[17] Cayana v. Court of Appeals, 426 SCRA 10, 22, March 18, 2004; Pineda v. Court of Appeals, 409 SCRA 438, 447, August 25, 2003; Tenio-Obsequio v. Court of Appeals, 230 SCRA 550, 560, March 1, 1994; Duran v. Intermediate Appellate Court, 138 SCRA 489, 495, September 10, 1985; Fule v. De Legare, 117 Phil. 367, 377, February 28, 1963.

[18] Cruz v. Court of Appeals, 281 SCRA 491, 495-496, November 6, 1997; Tenio-Obsequio v. Court of Appeals, supra, p. 555; Duran v. Intermediate Appellate Court, supra, p. 494; Fule v. De Legare, supra, p. 374.

[19] Cruz v. Court of Appeals, supra; Spouses Eduarte v. Court of Appeals, 323 Phil. 462, 476, February 9, 1996.

[20] Peña, Registration of Land Titles and Deeds, (1994 rev. ed.), p. 147.

[21] Assailed Decision, p. 4; rollo, p. 37.

[22] See Jose v. Court of Appeals, 192 SCRA 735, 742, December 26, 1990; Republic v. Court of Appeals, 94 SCRA 865, 872, December 27, 1979.

[23] Rollo, p. 84.

"A party dealing with the president of a corporation is entitled to assume that he has the authority to enter, on behalf of the corporation, into contracts that are within the scope of the powers of said corporation and that do not violate any statute or rule on public policy." People's Aircargo and Warehousing Co., Inc. v. Court of Appeals, 357 Phil. 850, 867, October 7, 1998; Yao Ka Sin Trading v. Court of Appeals, 209 SCRA 763, 782, June 15, 1992 (citing Fletcher, Cyclopedic of the Law of the Private Corporations, Vol. 2 [perm. ed.], 1969 rev. vol., p. 614.)

[24] Id., p. 61.

[25] *Id.*, p. 62.

[26] General Information Sheet dated January 6, 2001, Annual Meeting; *id.*, p. 96.

[27] Certificate of Corporate Filing/Information dated September 10, 2002; *id.*, p. 95.

[28] Deed of Absolute Sale; *id.*, pp. 84-85.

[29] Petition to Annul Order and for Injunction with Prayer for a Temporary Restraining Order; *id.*, pp. 47-54.

[30] Petitioner's Memorandum, p. 3; rollo, p. 181.

[31] *Rexlon Realty Group, Inc. v. Court of Appeals, supra*; *New Durawood Co., Inc. v. Court of Appeals, supra*; *Demetriou v. Court of Appeals, supra*; *Serra v. Court of Appeals, supra*.

[32] *Supra*.

[33] See also *Strait Times, Inc. v. Court of Appeals, supra*, p. 224.

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