

PHILIPPINE NATIONAL BANK, PETITIONER, VS. CIRIACO JUMAMOY AND HEIRS OF ANTONIO GO PACE, REPRESENTED BY ROSALIA PACE, RESPONDENTS.

G.R. No. 169901. August 03, 2011

Ponente: DEL CASTILLO, J.

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DEL CASTILLO, J.:

A PARTY enters into an agreement or contract with an eye to reap benefits therefrom or be relieved of an oppressive economic condition. The other party likewise assumes that the agreement would be advantageous to him. But just like in any other human undertaking, the end-result may not be as sweet as expected.

The problem could not be resolved by any other means but to litigate.

Courts, however, are not defenders of bad bargains. At most, they only declare the rights and obligations of the parties to the contract in order to preserve sanctity of the same.

We are confronted in this case with this legal predicament.[1]

This Petition for Review on Certiorari assails the February 28, 2005 Decision[2] of the Court of Appeals (CA) in CA-G.R. CV No. 73743 which dismissed petitioner Philippine National Bank's (PNB's) appeal from the July 30, 2001 Decision[3] of the Regional Trial Court (RTC), Branch 18, Digos City, Davao del Sur. Said Decision of the RTC ordered PNB to reconvey to respondent Ciriaco Jumamoy (Ciriaco) a portion of the parcel of land subject of this case.

Likewise assailed in this petition is the September 28, 2005 Resolution[4] of the CA denying PNB's Motion for Reconsideration.

Factual Antecedents

On December 27, 1989, the RTC, Branch 19, of Digos City, Davao del Sur, rendered a Decision[5] in Civil Case No. 2514 (a case for Reconveyance and Damages), ordering the exclusion of 2.5002 hectares from Lot 13521. The trial court found that said 2.5002 hectares which is part of Lot 13521, a 13,752-square meter parcel of land covered by Original Certificate of Title (OCT) No. P-4952[6] registered in the name of Antonio Go Pace (Antonio) on July 19, 1971 actually pertains to Sesinando Jumamoy (Sesinando), Ciriaco's predecessor-in-interest. The RTC found that said 2.5002-hectare lot was erroneously included in Antonio's free patent application which became the basis for the issuance of his OCT. It then ordered the heirs of Antonio (the Paces [represented by Rosalia Pace (Rosalia)]) to reconvey said portion to Ciriaco. In so ruling, the RTC acknowledged Ciriaco's actual and exclusive possession, cultivation, and claim of ownership over the subject lot which he acquired from his father Sesinando, who occupied and improved the lot way back in the early 1950s.[7]

The December 27, 1989 RTC Decision became final and executory but the Deed of Conveyance[8] issued in favor of Ciriaco could not be annotated on OCT No. P-4952 since said title was already cancelled. Apparently,

Antonio and his wife Rosalia mortgaged Lot 13521 to PNB as security for a series of loans dated February 25, 1971, April 26, 1972, and May 11, 1973.[9] After Antonio and Rosalia failed to pay their obligation, PNB foreclosed the mortgage on July 14, 1986[10] and title to Lot 13521 was transferred to PNB under Transfer Certificate of Title (TCT) No.T-23063. Moreover, the Deed of Conveyance could not be annotated at the back of OCT No. P-4952 because PNB was not impleaded as a defendant in Civil Case No. 2514.

Thus, in February 1996, Ciriaco filed the instant complaint against PNB and the Paces for Declaration of Nullity of Mortgage, Foreclosure Sale, Reconveyance and Damages,[11] docketed as Civil Case No. 3313 and raffled to Branch 18 of RTC, Digos City, Davao del Sur.

In his complaint, Ciriaco averred that Antonio could not validly mortgage the entire Lot 13521 to PNB as a portion thereof consisting of 2.5002 hectares belongs to him (Ciriaco), as already held in Civil Case No. 2514. He claimed that PNB is not an innocent mortgagee/purchaser for value because prior to the execution and registration of PNB's deed of sale with the Register of Deeds, the bank had prior notice that the disputed lot is subject of a litigation. It would appear that during the pendency of Civil Case No. 2514, a notice of lis pendens was annotated at the back of OCT No. P-4952 as Entry No. 165547[12] on November 28, 1988.

The Paces did not file any answer and were declared in default.[13] Meanwhile PNB filed its Amended Answer[14] denying for lack of knowledge and information Ciriaco's claim of ownership and reliance on the judgment in Civil Case No. 2514. It argued that it is a mortgagee and a buyer in good faith since at the time of the mortgage, Antonio's certificate of title was "clean" and "devoid of any adverse annotations." PNB also filed a cross-claim against the Paces.

Instead of having a full-blown trial, Ciriaco and PNB opted to submit the case for decision based on their respective memoranda.

Ruling of the Regional Trial Court

In its July 30, 2001 Decision,[15] the RTC ordered the partial nullification of the mortgage and the reconveyance of the subject lot claimed by Ciriaco. The RTC found that PNB was not a mortgagee/purchaser in good faith because it failed to take the necessary steps to protect its interest such as sending a field inspector to the area to determine the real owner, its occupants, its improvements and its boundaries.

The dispositive portion of the RTC Decision reads:

WHEREFORE, it is hereby ordered that defendant PNB shall reconvey, by the proper instrument of reconveyance, that portion of the land owned and claimed by plaintiff CIRIACO JUMAMOY.

The claim for damages by all the parties are hereby DISMISSED for lack of proper basis.

SO ORDERED.[16]

PNB filed a Motion for Reconsideration.[17] It argued that the trial court erred in finding that it is not an innocent mortgagee for value due to its alleged failure to send its field inspector to the area considering that such matter was never alleged in Ciriaco's complaint. PNB claimed that Ciriaco merely stated in his complaint that the bank is not an innocent mortgagee for value because it had already constructive notice that the subject land is under litigation by virtue of the notice of lis pendens already annotated on Antonio's title when PNB consolidated in its name the title for Lot 13521. PNB however argued that at the time of the constitution and registration of the mortgage in 1971, Antonio's title was clean as the notice of lis pendens was annotated only in 1988. And since there was no cause to arouse suspicion, it may rely on the face of the Torrens title. As for its cross-claim against the heirs of Antonio, PNB prayed that a hearing be set.

Ciriaco filed an Opposition to the Motion for Reconsideration.[18] He insisted that PNB cannot validly claim that it is an innocent mortgagee based on its reliance on Antonio's Torrens title because when it first granted Antonio's loan application, the subject property was still untitled and unregistered.

On January 7, 2002, the RTC denied PNB's motion for reconsideration.[19]

PNB thus filed its appeal with the CA.

Ruling of the Court of Appeals

In its Decision of February 28, 2005,[20] the CA affirmed the RTC's ruling that PNB is not an innocent mortgagee/purchaser. The CA reiterated that the business of a bank or a financial institution is imbued with public interest thus it is obliged to exercise extraordinary prudence and care by looking beyond what appears on the title. The CA pointed out that in this case, PNB failed to prove that it conducted an investigation on the real condition of the mortgaged property. Had the bank done so, it could have discovered that Ciriaco had possession of the disputed lot for quite some time. Moreover, the CA held that PNB could not validly claim that it merely relied on the face of a "clean" Torrens title because when the disputed lot was first mortgaged in 1971, the same was still an untitled and unregistered land. It likewise ruled that Ciriaco's action for reconveyance is based on implied trust and is imprescriptible because the land has always been in his possession.

Anent PNB's cross-claim against the Paces, the CA gave due course thereto and ordered the records remanded to the RTC for further proceedings.

The dispositive portion of the CA Decision reads:

WHEREFORE, premises considered, herein appeal is hereby DISMISSED and the decision of the trial court is hereby AFFIRMED with MODIFICATION, giving due course to the cross-claim of the defendant-appellant PNB against the Heirs of ANTONIO GO PACE as represented by ROSALIA PACE. Accordingly, let the entire records of this case be remanded to the lower court for further proceedings of the said cross-claim.

SO ORDERED.[21]

PNB moved for a reconsideration.[22] However, the CA sustained its ruling in a Resolution[23] dated September 28, 2005.

Hence, this petition.

Issues

PNB ascribed upon the CA the following errors:

A. THE COURT OF APPEALS ERRED IN AFFIRMING THE TRIAL COURT'S DECISION IN DECLARING THAT PNB FAILED TO QUALIFY AS AN INNOCENT MORTGAGEE FOR VALUE IN THE ABSENCE OF EVIDENCE TO ESTABLISH THIS FACT.

B. THE COURT OF APPEALS ERRED IN ORDERING THE PARTIAL NULLIFICATION OF THE REAL ESTATE MORTGAGE EXECUTED IN FAVOR OF PNB IN DISREGARD OF THE LAW AND ESTABLISHED JURISPRUDENCE ON THE MATTER.

C. THE COURT OF APPEALS ERRED IN ORDERING THE PARTIAL NULLIFICATION OF PNB'S TITLE CONTRARY TO THE LAW AND ESTABLISHED JURISPRUDENCE ON THE MATTER.

D. THE COURT OF APPEALS ERRED IN DENYING PNB'S MOTION FOR RECONSIDERATION AND SUSTAINING RESPONDENT JUMAMOY'S INVOCATION OF THE RULING OF THE SUPREME COURT IN SPOUSES FLORENTINO AND FRANCISCA TOMAS VS. PNB (98 SCRA 280) INSTEAD OF

THE LANDMARK CASE OF LILIA Y. GONZALES VS. IAC AND RURAL BANK OF PAVIA, INC. (157 SCRA 587) WHICH IS THE ONE APPLICABLE TO THE INSTANT CASE.

E. THE COURT OF APPEALS ERRED IN ORDERING PNB TO RECONVEY THE PORTION OF LAND CLAIMED BY RESPONDENT JUMAMOY NOTWITHSTANDING THE FACT THAT IT IS APPARENT FROM THE COMPLAINT THAT RESPONDENT JUMAMOY'S ACTION FOR RECONVEYANCE IS ALREADY BARRED BY PRESCRIPTION.[24]

In essence, PNB contends that the lower courts grievously erred in declaring that it is not an innocent mortgagee/purchaser for value. PNB also argues that Ciriaco's complaint is barred by prescription. TCT No. T-23063 was issued on March 23, 1990, while Ciriaco filed his complaint only six years thereafter. Thus, the one-year period to nullify PNB's certificate of title had lapsed, making PNB's title indefeasible. Moreover, PNB claims that an action for reconveyance prescribes in four years if based on fraud, or, 10 years if based on an implied trust, both to be counted from the issuance of OCT No. P-4952 in July 1971 which constitutes as a constructive notice to the whole world. Either way, Ciriaco's action had already prescribed since it took him 17 years to file his first complaint for reconveyance in Civil Case No. 2514 and around 23 years to file his second complaint in Civil Case No. 3313.

Our Ruling

We deny the petition.

PNB is not an innocent purchaser/
mortgagee for value.

Undoubtedly, our land registration statute extends its protection to an innocent purchaser for value, defined as "one who buys the property of another, without notice that some other person has a right or interest in such property and pays the full price for the same, at the time of such purchase or before he has notice of the claims or interest of some other person in the property." [25] An "innocent purchaser for value" includes an innocent lessee, mortgagee, or other encumbrancer for value. [26]

Here, we agree with the disposition of the RTC and the CA that PNB is not an innocent purchaser for value. As we have already declared:

A banking institution 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. [27] (Emphasis ours.)

PNB's contention that Ciriaco failed to allege in his complaint that PNB failed to take the necessary precautions before accepting the mortgage is of no moment. It is undisputed that the 2.5002-hectare portion of the mortgaged property has been adjudged in favor of Ciriaco's predecessor-in-interest in Civil Case No. 2514. Hence, PNB has the burden of evidence that it acted in good faith from the time the land was offered as collateral. However, PNB miserably failed to overcome this burden. There was no showing at all that it conducted an investigation; that it observed due diligence and prudence by checking for flaws in the title; that it verified the identity of the true owner and possessor of the land; and, that it visited subject premises to determine its actual condition before accepting the same as collateral.

Both the CA and the trial court correctly observed that PNB could not validly raise the defense that it relied on Antonio's clean title. The land, when it was first mortgaged, was then unregistered under our Torrens system. The first mortgage was on February 25, 1971 [28] while OCT No. P-4952 was issued on July 19, 1971. Since the Paces offered as collateral an unregistered land, with more reason PNB should have proven before the RTC that it had

verified the status of the property by conducting an ocular inspection before granting Antonio his first loan. Good faith which is a question of fact could have been proven in the proceedings before the RTC, but PNB dispensed with the trial proper and let its opportunity to dispute factual allegations pass. Had PNB really taken the necessary precautions, it would have discovered that a large portion of Lot 13521 is occupied by Ciriaco.

Ciriaco's action for reconveyance is
inprescriptible.

Also, the incontrovertibility of a title does not preclude a rightful claimant to a property from seeking other remedies because it was never the intention of the Torrens system to perpetuate fraud. As explained in *Vda. de Recinto v. Inciong*:^[29]

The mere possession of a certificate of title under the Torrens system does not necessarily make the possessor a true owner of all the property described therein for he does not by virtue of said certificate alone become the owner of the land illegally included. It is evident from the records that the petitioner owns the portion in question and therefore the area should be conveyed to her. The remedy of the land owner whose property has been wrongfully or erroneously registered in another's name is, after one year from the date of the decree, not to set aside the decree, but, respecting the decree as incontrovertible and no longer open to review, to bring an ordinary action in the ordinary court of justice for reconveyance or, if the property has passed into the hands of an innocent purchaser for value, for damages. (Emphasis supplied.)

"If property is acquired through mistake or fraud, the person obtaining it is, by force of law, considered a trustee of an implied trust for the benefit of the person from whom the property comes."^[30] An action for reconveyance based on implied trust prescribes in 10 years as it is an obligation created by law,^[31] to be counted from the date of issuance of the Torrens title over the property.^[32] This rule, however, applies only when the plaintiff or the person enforcing the trust is not in possession of the property.

In *Vda. de Cabrera v. Court of Appeals*,^[33] we said that there is no prescription when in an action for reconveyance, the claimant is in actual possession of the property because this in effect is an action for quieting of title:

[S]ince if a person claiming to be the owner thereof is in actual possession of the property, as the defendants are in the instant case, the right to seek reconveyance, which in effect seeks to quiet title to the property, does not prescribe. The reason for this is that one who is in actual possession of a piece of land claiming to be the owner thereof may wait until his possession is disturbed or his title is attacked before taking steps to vindicate his right, the reason for the rule being, that his undisturbed possession gives him a continuing right to seek the aid of a court of equity to ascertain and determine the nature of the adverse claim of a third party and its effect on his own title, which right can be claimed only by one who is in possession.^[34]

In Ciriaco's case, as it has been judicially established that he is in actual possession of the property he claims as his and that he has a better right to the disputed portion, his suit for reconveyance is in effect an action for quieting of title. Hence, petitioner's defense of prescription against Ciriaco does not lie.

WHEREFORE, the petition is DENIED. The February 28, 2005 Decision and September 28, 2005 Resolution of the Court of Appeals in CA-G.R. CV No. 73743 are hereby AFFIRMED.

SO ORDERED.

Corona, C.J., (Chairperson), Leonardo-De Castro, Bersamin, and Villarama, Jr., JJ., concur.

[1] July 30, 2001 Decision of the Regional Trial Court, Branch 18, Digos City, Davao del Sur in Civil Case No.

3313, records, p. 122.

[2] CA rollo, pp. 59-75; penned by Associate Justice Myrna Dimaranan-Vidal and concurred in by Associate Justices Teresita Dy-Liacco Flores and Edgardo A. Camello.

[3] Records, pp. 122-126; penned by Judge Marivic Trabajo Daray.

[4] CA rollo, p. 133.

[5] Records, pp. 9-19.

[6] Id. at 88-91, 141-142.

[7] Sesinando's possession has been upheld in the case of CA-G.R. No. 29215-R entitled De Salvilla vs. Jumamoy.

[8] Records, pp. 20-21.

[9] Entry Nos. 5575, 11332, 17171, id. at 89-90 and 142-143.

[10] See Entry No. 178169 in OCT No. P-4952, id. at 91 and dorsal side of p. 142.

[11] Id. at 1-8.

[12] Id. at 91 and dorsal side of p. 142.

[13] Id. at 42.

[14] Id. at 46-50.

[15] Id. at 122-126.

[16] Id. at 126.

[17] Id. at 127-140.

[18] Id. at 144-154.

[19] Id. at 158-161.

[20] Supra note 2.

[21] CA rollo, p. 75.

[22] Id. at 81-98.

[23] Supra note 4.

[24] Rollo, pp. 43-44

[25] Dela Cruz v. Dela Cruz, 464 Phil. 812, 823 (2004), citing Spouses Chu, Sr. v. Benelda Estate Development Corporation, 405 Phil. 936 (2001).

[26] Presidential Decree No. 1529, Section 32.

[27] Cruz v. Bancom Finance Corporation, 429 Phil 225, 239 (2002).

[28] Records, p. 89.

[29] 167 Phil. 555, 559 (1977).

[30] Civil Code, Article 1456.

[31] Civil Code, Article 1144. The following actions must be brought within ten years from the time the right of action accrues:

x x x x

(2) Upon an obligation created by law;

x x x x

[32] Crisostomo v. Garcia, Jr., G.R. No. 164787, January 31, 2006, 481 SCRA 402, 413.

[33] 335 Phil. 19 (1997).

[34] Id. at 32. Reiterated in Ney v. Sps. Quijano, G.R. No. 178609, August 4, 2010, 626 SCRA 800, 808 citing Mendizabel v. Apao, G.R. No. 143185, February 20, 2006, 482 SCRA 587, 609 and Lasquite v. Victory Hills, Inc., G.R. No. 175375, June 23, 2009, 590 SCRA 616, 631.

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