

FILADELFA T. LAUSA, LORETA T. TORRES, PRIMITIVO TUGOT AND ANACLETO T. CADUHAY, PETITIONERS, VS. MAURICIA QUILATON, RODRIGO Q. TUGOT, PURIFICACION T. CODILLA, TEOFRA T. SADAYA, E...

G.R. No. 170671. August 19, 2015

Ponente: BRION, J.

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BRION, J.:

Before us is a Petition for review on certiorari assailing the Court of Appeals (CA) Decision in CA-G.R. CV No. 63248. The CA reversed the decision of the Regional Trial Court (RTC) of Cebu City, Branch 15 in Civil Case No. CEB - 17857, and upheld the validity of Transfer Certificate Title (TCT) No. 571.

Factual Antecedents

The main issue in the present case involves the title to Lot No. 557, a parcel of land situated in V. Ranudo and D. Jakosalem Streets, Cogon Central, Cebu City.

The petitioners and the respondents are relatives residing in Lot No. 557.

Petitioners Filadelfa T. Lausa, Loreta T. Torres, Primitivo Tugot, and Anacleto T. Caduhay are the cousins of respondents Rodrigo Tugot, Purificacion Codilla, Teofra Sadaya, and Estrellita Galeos; while Mauricia Quilaton is the respondents' mother and the petitioners' aunt-in-law.

The respondent Rosita T. Lopez, on the other hand, acquired the rights of Rodrigo when he mortgaged Lot No. 557-A, a portion of Lot No. 557, to her. Rodrigo subsequently defaulted on his loan.

The petitioners and respondents, with the exception of Mauricia and Rosita, are all grandchildren of Alejandro Tugot. Alejandro had possessed Lot No. 557 since September 13, 1915, after it was assigned to him by Martin Antonio.

Lot No. 557 formed part of the Banilad Friar Estate Lands, which had been bought by the government through Act No. 1120 for distribution to its occupants. Antonio had initially been Lot No. 557's beneficiary, but subsequently assigned his rights over Lot No. 557 to Alejandro.

Since then, Alejandro possessed Lot No. 557 until his death; thereafter, his children and grandchildren continued to reside in the lot. The present controversy arose when the respondents, claiming to be its registered owners, attempted to eject the petitioners from Lot No. 557.

On January 1993, Mauricia filed before the RTC of Cebu City Branch 17 a petition for the issuance of a new owner's duplicate of TCT No. 571, which purportedly covers Lot No. 557. Mauricia claimed to own TCT No. 571, but lost her owner's duplicate during a strong typhoon sometime in 1946. The RTC, after due hearing, granted Quilaton's petition and directed the issuance of a new owner's duplicate of TCT No. 571.

On September 27, 1994, Mauricia donated Lot No. 557 to her children Rodrigo, Purificacion, Teofra and Estrellita. Thus, TCT No. 571 was cancelled, and re-issued as TCT Nos. 130517, 130518, 130519, 130520 and 130521 in the names of Mauricia's children.[1]

Mauricia's children subsequently performed several acts of ownership over Lot 571: first, Rodrigo, on March 23, 1995, mortgaged TCT No. 130517 to Lopez as security for a loan he obtained from the latter. Rodrigo subsequently defaulted on his loan, prompting the foreclosure of TCT No. 130517. The land covered by TCT No. 130517 was thereafter sold by public auction to Lopez, for which she was issued TCT No. 143511 on March 31, 1997.

Second, Mauricia's children filed a complaint for ejectment against the petitioners, docketed as Civil Case No. R-35137, on August 4, 1995.

In response, the petitioners filed Civil Case No. CEB-17857 for the annulment of TCT No. 571 and the subsequent titles that originate from TCT No. 571, as well as criminal complaints[2] for falsification and perjury against the respondents.

The Regional Trial Court's ruling

The RTC found TCT No. 571 to be a forgery, and declared it and all titles originating from it to be null and void ab initio. The RTC gave the following reasons as basis for this conclusion:

First, the RTC noted several discrepancies in TCT No. 571 indicating that it is a forgery, viz.:

(i)

The TCTs issued before and after TCT No. 571, that is, TCT No. 570 and TCT No. 572, both use a different and more recent form than TCT No. 571, TCT Nos. 570 and 572 use Judicial Form No. 109, which was issued in June 1945, while TCT No. 571 uses Judicial Form No. 140-D, which was issued in April 1936.

(ii)

TCT Nos. 570 and 572 was signed by Martina L. Arnoco as Register of Deeds, while TCT No. 571 was signed by Gervasio Lavilles as Acting Register of Deeds.

(iii)

There are distinct differences in Lavilles' signature as it appears in TCT No. 571 from his signatures in other TCTs, such as TCT Nos. 525 and 526.

Second, Mauricia's previous acts show that she acknowledged Alejandro's ownership over Lot No. 557. Prior to instituting a petition for issuance of a new owner's duplicate in 1993, Mauricia had been paying Alejandro (and subsequently Aurea) contributions for the real estate taxes due on Lot No. 557.

Third, Mauricia exercised acts of full ownership over Lot No. 557 only in 1994, after she had filed a petition for the issuance of a new owner's duplicate, even as she claimed to have owned the lot since 1946.

Fourth, Mauricia failed to present evidence showing how she acquired title to Lot No. 557. If indeed the land was purchased from Martin Antonio, she could have secured a copy of its document of sale from the Archives Office, Manila.

Additionally, the RTC held that the petitioners had better title to Lot No. 557 than the respondents. The RTC found that Lot No. 557 had been in the possession of Alejandro since September 13, 1915, when the lot's owner, Martin Antonio, executed a Deed of Assignment in favor of Alejandro. This conveyance, together with Alejandro

and his heirs' continuous payment of Lot No. 557's real estate taxes since 1928, amounts to more than thirty years of adverse possession, so that ownership over the lot vested in him.

As Alejandro's heirs, both the petitioners and respondents are entitled to a share in Lot No. 557.

Lastly, the RTC declared Lopez's TCT No. 143511, which she acquired when she purchased TCT No. 130517, to be null and void. TCT No. 130517 covers Lot No. 557-A, and had been annotated with a Notice of Lis Pendens at the time Lopez purchased it. Thus, Lopez had knowledge of the dispute over the ownership of the lot she bought, and could not claim the defense of a purchaser in good faith. She acquired no greater title to the lot than Rodrigo, who mortgaged TCT No. 130517.

The respondents filed a motion for reconsideration contesting the RTC's decision. After the RTC denial of the motion, the respondents appealed to the CA.

The Court of Appeals' ruling

The CA reversed the RTC's decision, and upheld the validity of TCT No. 571 and all the titles originating from it.

In upholding the validity of TCT No. 571 (and all the titles originating from it), the CA emphasized the existence of a copy of TCT No. 571 in the custody of the Office of the Register of Deeds of Cebu City, and noted that it is presumed by law to have been issued in a regular manner. The application of this presumption is called for by the purpose of the Torrens system, which is to promote the stability and integrity of land titles.

According to the CA, the petitioners have failed to disprove this presumption of regularity. The pieces of evidence that the petitioners presented (i.e., the tax receipts and Antonio's Deed of Assignment of Lot No. 557 to Alejandro) do not prove with clear, positive, and convincing evidence that TCT No. 571 had been fraudulently issued. The payment of real estate taxes over Lot No. 557 does not prove ownership. The Deed of Assignment, on the other hand, had been subsequently cancelled, as shown by the Friar Lands Sale Certificate Register on file with the DENR. It proves that the lot had been earlier assigned to Alejandro, but because the assignment was canceled, the ownership of Lot No. 557 remained with Antonio.

The CA also noted that the lot that Alejandro appears to have owned was not Lot No. 557 but Lot No. 357. The description of Lot No. 557 - as set forth by the petitioners in their original complaint - substantially varies from the actual and precise technical description of Lot No. 557. Additionally, some of the documentary evidence in the case (such as tax declarations, tax receipts and notices of tax delinquency) show that what Alejandro owned was Lot No. 357, not Lot No. 557.

The CA also pointed out that Alejandro could not have acquired Lot 557 through acquisitive prescription for two reasons: first, Mauricia had been in possession of the property since 1946; and second, a lot registered under the Torrens system cannot be acquired through acquisitive prescription. Records show that the lands comprising the Banilad Friar Lands Estate, of which Lot No. 557 was a part, had been brought under the operation of the Torrens system on September 23, 1913.

The CA found Lopez to be an innocent purchaser for value. Applying the Court's ruling in *Bank of the Philippine Islands v. Noblejas*, the CA held that Lopez's good faith as a mortgagee extends to her eventual purchase of the lot during its foreclosure. Since TCT No. 130517 had no notice of any adverse claim at the time it was mortgaged to Lopez, then the subsequent annotation of Notice of Lis Pendens prior to TCT No. 130517's foreclosure should not affect her status as a mortgagee-in-good-faith. The clean title presented to Lopez at the time TCT No. 130517 was mortgaged to her maintains this status at the time of its foreclosure, and cannot be prejudiced by the subsequent annotation of a claim to it before the lot is foreclosed.

Lastly, the CA found that the RTC erred when it did not immediately dismiss the petitioners' complaint, as their cause of action had been barred by prescription and laches. An action for the annulment of title to land prescribes in ten years. The petitioners filed their complaint only on September 20, 1995, almost fifty years after Mauricia had been issued TCT No. 571 on July 16, 1946. Thus, the petitioners had slept on their claimed right over Lot 557; consequently, they are now barred by laches from seeking redress before the courts.

The petitioners filed a motion for reconsideration assailing the CA's decision, which motion the CA denied. The denial opened the way for the present petition for review on certiorari before this Court.

The present petition

In their present petition, the petitioners seek the reversal of the CA's decision through their assertion that they have acquired ownership over Lot No. 557 by acquisitive prescription.

The petitioners claim that the CA committed the following errors:

First, the CA erred in upholding the validity of TCT No. 571, which is a fake and fabricated title.

Second, the CA erred in finding that Mauricia owned and possessed Lot No. 557, as it was Alejandro who exercised acts of exclusive ownership and possession over the lot since it was assigned to him in 1915. The lot Antonio assigned to Alejandro covered Lot No. 557, although earlier tax declarations indicated the areas of the lot to be Lot No. 357. This error was corrected in subsequent tax declarations by the City of Cebu Assessor's Office in 1997.

Third, the CA erred in holding that Lopez is an innocent purchaser in good faith, as she knew that the portion of Lot No. 557 being mortgaged to her was in the possession of Filadelfa, and not Rodrigo. She knew of this possession before she executed the real estate mortgage contract over the property with Rodrigo.

Fourth, the CA erred in finding the petitioners' cause of action barred by prescription and laches, as they discovered the existence of TCT No. 571 only in August 1995, when Mauricia and her children instituted ejectment proceedings against them.

In response, the respondents argue that the petitioners have no cause of action against them because Alejandro's tax declarations cover Lot No. 357, and not Lot No. 557, which is covered by their TCTs. They also cited the CA's decision, and argued that the CA committed no error of law in upholding the validity of their TCTs.

Lopez, on the other hand, asserted that her status as an innocent purchaser or mortgagor in good faith had not been included in the petitioners' amended complaint including her as an indispensable party, and should thus not have been considered as an issue in the case. In any case, Lopez asserts that her title to Lot No. 557-A is valid because she is an innocent purchaser in good faith.

Issues:

The issues, having been properly joined, present to us the following questions:

(1)

Whether the CA erred in finding that the lot that the petitioners claim to own covers Lot No. 357, and not Lot No. 557;

(2)

Whether the CA erred in finding that the respondents, and not the petitioners, are the owners and possessors of Lot No. 557;

(3)

Whether the CA erred in finding Lopez an innocent purchaser in good faith; and

(4)

Whether the CA erred in finding the petitioners' cause of action to have been barred by prescription and laches.

The Court's Ruling

We find the petition meritorious.

We note at the outset that the Court is not a trier of facts, and our jurisdiction in cases brought before us from the appellate court is limited to the review of errors of law.

We have, however, recognized several exceptional situations that call for a re-evaluation of the CA's factual conclusions, among them, the situation when the CA's findings are contrary to that of the trial court, and when the CA manifestly overlooks relevant facts not disputed by the parties and which, if properly considered, would lead to a different conclusion.[3]

We find these circumstances in the present case, prompting us to re-examine the records of the case and to reverse the CA's decision after due consideration of the records.

The CA erred in finding that the lot

that the petitioners claim to own is

Lot No. 357, and not Lot No. 557

The CA, in upholding the validity of Mauricia's title and ownership over Lot No. 557, pointed out that the lot that Alejandro claimed to own was not Lot No. 557, but Lot No. 357.

The CA based this conclusion on several tax documents in the name of Alejandro Tugot, which indicate that the lot covered is Lot No. 357, and not Lot No. 557.

In so doing, the CA overlooked several key pieces of evidence presented before the RTC, which had led the latter to conclude that the designation of Lot No. 357 in Alejandro's tax declarations actually pertained to Lot No. 557. These pieces of evidence are as follows:

First, the testimony of Mr. Antonio Abellana of the City of Cebu Assessor's Office established that he issued a Certification of Correction to change Alejandro's tax declarations, which initially covered Lot No. 357, to Lot No. 557.

According to Abellana, Lot No. 357 is located in a barangay different from the address found in Alejandro's tax declaration. The base map of Cebu locates Lot No. 357 to be in Barangay Day-as, almost five meters from Sikatuna Street, while the address in Alejandro's erroneous tax declaration indicates that Lot No. 357 is located in Jakosalem Street.

Second, records of the Cebu City Assessor's Office show that Lot No. 357 is covered by another tax declaration with an address corresponding to the city's base map. In this tax declaration, Lot No. 357 is owned by a certain Antonio Yap.

Third, the deed of donation[4] of Lot No. 558, which adjoins Lot Nos. 557 and 559, recognized Alejandro Tugot as the owner of Lot No. 557.

We find that these pieces of evidence sufficiently explain that the lot in Alejandro and Aurea's tax declarations actually covered Lot No. 557, and its initial designation as Lot No. 357 was an error. The Assessor's Office of Cebu City, which had the responsibility of classifying, appraising, and assessing real property in Cebu, had acknowledged this designation to be erroneous, and subsequently made rectification. This acknowledgment is not only entitled to the presumption of regularity; it is also corroborated by the Deed of Donation of an adjoining lot.

Additionally, we also found other pieces of evidence supporting the conclusion of the Cebu City Assessor's Office. The tax declarations in Alejandro and (subsequently) Aurea's names indicate that they covered the same address as the Lot No. 557 described in the Deed of Assignment that Antonio executed in Alejandro's favor in 1915. The identity of the addresses in these two documents show that what the petitioners intended to pay real property tax for, was the lot covered in the Deed of Assignment, which was Lot No. 557. Thus, the tax declarations that placed Lot No. 357 under Alejandro's name actually pertained to the lot covered by Lot No. 557; its designation as covered by Lot No. 357 was an error that the Cebu City Assessor's Office eventually discovered and corrected.

In the same vein, the court-approved subdivision plan for Lot No. 557 indicated it to be found along Jakosalem Street, the address of the lot covered by Alejandro and Aurea's tax declarations. The plan was commissioned for Alejandro and his children, including Romualdo (Mauricia's husband and the father of her children), in 1960. That the address of Lot No. 557 in the subdivision plan is identical to the address in Alejandro and Aurea's tax declarations establishes that what they actually claim to own is Lot No. 557, and not Lot No. 357.

With this foundation established, we now resolve the issue of who among them have the better right over Lot No. 557.

The CA erred in finding that the
petitioners failed to prove that
TCT No. 571 is a fabricated title

In upholding the validity of Mauricia's TCT No. 571, the CA held that the petitioners failed to overcome the presumption of regularity that attended its issuance. The CA emphasized that a copy of TCT No. 571 is currently with the Register of Deeds, and that the documents that the petitioners presented do not prove their ownership over the lot.

The CA's conclusion, however, overlooked the evidence that the petitioners presented before the RTC to prove that TCT No. 571 is a fabricated title. These pieces of evidence include the TCTs issued immediately before and after TCT No. 571; TCT No. 16534 (the TCT from which TCT No. 571 allegedly originated); and several TCTs that contain the signature of the Acting Register of Deeds who signed TCT No. 571. Taken together, all these pieces of evidence sufficiently prove, by preponderance of evidence, that TCT No. 571 is a fabricated title.

We cite with approval the RTC's factual observations and conclusions, viz:

First, the text of TCT No. 571 contains glaring discrepancies with TCT No. 16534, the title indicated in TCT No. 571 as its precursor.

TCT No. 16534 covered a different area from TCT No. 571. TCT No. 16534 covered Lot 7005-E-2, which has an area of 3,311 square meters, while TCT No. 571 covers Lot No. 557 with an area of 525 square meters. Too, TCT No. 16534 was issued in September 1957, or almost ten years after the title it supposedly gave rise to was issued in 1946.

Second, TCT No. 571 contains discrepancies when compared with TCT Nos. 570 and 572, the TCTs that were

supposedly issued before and after TCT No. 571. These discrepancies are as follows:

(i)

TCT Nos. 570 and 572 had both been issued on February 26, 1947, almost a year after TCT No. 571 was issued on July 16, 1946. Since TCT No. 571 was an intervening title between TCT No. 570 and 572, then it should have also been issued on February 26, 1947.

(ii)

TCT No. 571 used an old form, Judicial Form No. 140-D, which was revised in June 1945 by Judicial Form No. 109. Since TCT No. 571 shows that it was issued in 1946, then it should have used Judicial Form No. 109. Notably, both TCT Nos. 570 and 572 used the updated Judicial Form No. 109, as they were issued in 1947.

(iv)

TCT Nos. 570 and 572 were signed by Martina L. Arnoco as Register of Deeds, while TCT No. 571 was signed by Gervasio Lavilles as Acting Register of Deeds.

(v)

There are distinct differences in Lavilles' signature as it appears in TCT No. 571, compared with his signatures in other TCTs, such as TCT Nos. 525 and 526.

Additionally, we note that Mauricia's claim that she bought Lot No. 557 from Antonio is contradicted by the contents of TCT No. 16534.

For a new TCT to be issued, the owner's duplicate of the seller should have been surrendered to the Registry of Deeds, along with a copy of the TCT's Deed of Sale. Thus, the seller's TCT would be cancelled, and the new TCT of the buyer would indicate the seller's TCT as its TCT of origin.

The text of TCT No. 571 shows that it originated from TCT No. 16534. If indeed TCT No. 571 was issued to Mauricia because the latter bought Lot No. 557 from Antonio, then TCT No. 16534 should have reflected this transaction.

However, instead of reflecting Antonio's title to Lot No. 557, TCT No. 16534 shows that it pertained to a different lot, and had been issued ten years after the issuance of TCT No. 571 to a certain Crispina Lopez.

The original certificate of title from which TCT No. 571 and TCT No. 16534 originated are also different: TCT No. 571 originated from Original Certificate of Title (OCT) No. 251-253, while TCT No. 16534 originated from OCT No. 11375.

These discrepancies, taken together with its variations from the other titles issued around the same time and Mauricia's failure to present proof of how she acquired the lot from Antonio, reasonably establish that TCT No. 571 is a fabricated title.

We now proceed to determine whether Alejandro was Lot No. 557's rightful owner.

The CA erred in relying on a fabricated

title as basis to deny Alejandro's claim

to acquisitive prescription

The CA, in reversing the RTC's decision recognizing Alejandro's ownership over Lot No. 571, held that Lot No.

557 could no longer be acquired through prescription because it had already been brought under the Torrens system, in Registry Book No. A-3.

Registry Book No. A-3 refers to the registry book where OCT No. 251-253 is registered, as indicated in TCT No. 571. Thus, the CA concluded that Lot No. 557 has been brought under the Torrens system because TCT No. 571 is already covered by the system. But as TCT No. 571 is a fabricated title, the CA erred in relying on its contents to conclude that Lot No. 557 has already been brought under the Torrens system.

Alejandro Tugot did not acquire Lot

No. 557 through acquisitive prescription

We agree with the CA's conclusion that Lot No. 557 cannot be acquired through prescription, but for a different reason.

In the present case, the Deed of Assignment between Antonio and Alejandro was cancelled three months after it was executed. The Deed, executed on September 13, 1915, was inscribed with the phrase: "Cancelled December 21, 1915. See letter # 12332."

Both the trial court and the CA found this inscription to be sufficient proof that the Deed of Assignment had been cancelled three months after its execution. As a consequence, the Deed of Assignment could not have vested Antonio's rights over Lot No. 557 to Alejandro.

Thus, Lot No. 557 reverted to its original status after the Deed of Assignment was cancelled. It remained subject to the conditional sale^[5] between the government and Antonio; under the Certificate of Sale between the Bureau of Lands and Antonio, the government should transfer title to Lot No. 557 to Antonio upon full payment of the lot's purchase price.

The nature of the contract of sale between Antonio and the government is in line with Section 15 of Act No. 1120, which provides for the administration, temporary lease, and sale of friar lands that the government bought through sections 63 to 65 of "An Act temporarily to provide for the administration of the affairs of civil government in the Philippine Islands, and for other purposes." These friar lands included the Banilad Estate Friar Lands, from where Lot No. 557 originated.

Section 15 of Act No. 1120 that applied to Lot No. 557 provides:

Sec. 15. The Government hereby reserves the title to each and every parcel of land sold under the provisions of this Act until the full payment of all installments or purchase money and interest by the purchaser has been made, and any sale or encumbrance made by him shall be invalid as against the Government of the Philippine Islands and shall be in all respects subordinate to its prior claim.

x x x x

According to jurisprudence, Section 15 of Act No. 1120 reserves to the government the naked title to the friar lands, until its beneficiaries have fully paid their purchase price. Since the intent of Act No. 1120 was to transfer ownership of the friar lands to its actual occupants, the equitable and beneficial title to the land passes to them the moment the first installment is paid and a certificate of sale is issued. This right is subject to the resolutive condition that the sale may be rescinded if the agreed price shall not be paid in full.

When the Certificate of Sale was executed, Antonio obligated himself to pay P9.00 as the final installment to purchase Lot No. 557. His previous lease payments to the lot were applied as initial installments for the payment of the lot's purchase price of P15.16. Upon full payment of the installment and its annual 4% interest, the

government was bound to transfer full ownership of Lot No. 557 to Antonio under Section 122 of Act No. 496.

While the records of the case do not show any documents or paper trail showing the actions of the parties to the Certificate of Sale after the Deed of Assignment was cancelled, we can, with certainty, rule out the possibility that Alejandro acquired title to it through prescription.

Three scenarios could have happened after the Deed of Assignment was cancelled - all of which forego the possibility of acquisitive prescription.

First, Antonio could have completed payment of the purchase price of Lot No. 557. Upon full payment, the lot would have then been registered in Antonio's name.

The Certificate of Sale between Antonio and the government requires registration under Section 122 of Act No. 496, or the Land Registration Act of 1902, for the ownership over Lot No. 557 to be transferred to Antonio. Section 122 of Act No. 496 provides:

Section 122. Whenever public lands in the Philippine Islands belonging to the Government of the United States or to the Government of the Philippine Islands are alienated, granted, or conveyed to persons or to public or private corporations, the same shall be brought forthwith under the operation of this Act and shall become registered lands. It shall be the duty of the official issuing the instrument of alienation, grant, or conveyance in behalf of the Government to cause such instrument, before its delivery to the grantee, to be filed with the register of deeds for the province where the land lies and to be there registered like other deeds and conveyances, whereupon a certificate shall be entered as in other cases of registered land, and an owner's duplicate certificate issued to the grantee. The deed, grant, or instrument of conveyance from the Government to the grantee shall not take effect as a conveyance or bind the land, but shall operate as a contract between the Government and the grantee and as evidence of authority to the clerk or register of deeds to make registration. The act of registration shall be the operative act to convey and affect the lands, and in all cases under this Act registration shall be made in the office of the register of deeds for the province where the land lies. The fees for registration shall be paid by the grantee. After due registration and issue of the certificate and owner's duplicate such land shall be registered land for all purposes under this Act.

Thus, the government could have registered the title to Lot No. 557 in Antonio's name only after he had paid the purchase price in full. Had Antonio eventually completed the payment of Lot No. 557's purchase price, it would have been registered under the Torrens system, through Section 122 of Act No. 496.

Land registered under the Torrens system cannot be acquired through prescription. As early as 1902, Section 46 of Act No. 496 categorically declared that lands registered under the Torrens system cannot be acquired by prescription, viz:

Section 46. No title to registered land in derogation to that of the registered owner shall be acquired by prescription or adverse possession.

Second, Antonio could have failed to complete payment of Lot No. 557's purchase price; thus, the naked title to Lot No. 557 remains with the government.

Under Act No. 1120, the Chief of the Bureau of Public Lands is required to register title to the friar lands acquired by the government through Act No. 496. Section 6 of Act No. 1120, in particular, provides:

SECTION 6. The title, deeds and instruments of conveyance pertaining to the lands in each province, when executed and delivered by said grantors to the Government and placed in the keeping of the Chief of the Bureau of Public Lands, as above provided, shall be by him transmitted to the register of deeds of each province in which any part of said lands lies, for registration in accordance with law. But before transmitting the title, deeds, and instruments of conveyance in this section mentioned to the register of deeds of each

province for registration, the Chief of the Bureau of Public Lands shall record all such deeds and instruments at length in one or more books to be provided by him for that purpose and retained in the Bureau of Public Lands, when duly certified by him shall be received in all courts of the Philippine Islands as sufficient evidence of the contents of the instrument so recorded whenever it is not practicable to produce the originals in court.

The law on land registration at that time was Act No. 496, which established the Torrens system in the Philippines. As earlier pointed out, a piece of land, once registered under the Torrens system, can no longer be the subject of acquisitive prescription.

No certificate of title pertaining to the government's transfer of ownership of Lot No. 557 was ever presented in evidence. Assuming, however, that the Chief of the Bureau of Public Lands failed to register Lot No. 557, the lot could not have been acquired by Alejandro through prescription, under the rule that prescription does not lie against the government.

Third, Antonio could have sold his rights to Lot No. 557 to another person. Assuming he did, only that person could have stepped into his shoes, and could have either completed payment of the purchase price of Lot No. 557 and had it registered in his name; or, he could have failed to pay the purchase price in full, in which case the naked title to the lot remains government property.

In all three scenarios, Alejandro could not have acquired ownership over Lot No. 557 through prescription.

Republic Act No. 9443 and the friar lands

The Court is not unaware of the enactment of Republic Act No. 9443, which confirms the validity of titles covering any portion of the Banilad Friar Lands with Certificates of Sale and Assignment of Sale that do not contain the signature of the then Secretary of the Interior and/or Chief of the Bureau of Public Lands. It does not apply to TCTs that have been fraudulently issued and registered.

Republic Act No. 9443, however, does not validate any of the parties' claims of ownership over Lot No. 557.

Mauricia's title, as earlier established, is fabricated; thus, her situation falls within the exception expressed under Section 1 of RA No. 9443, viz:

This confirmation and declaration of validity shall in all respects be entitled to like effect and credit as a decree of registration, binding the land and quieting the title thereto and shall be conclusive upon and against all persons, including the national government and all branches thereof; except when, in a given case involving a certificate of title or a reconstituted certificate of title, there is a clear evidence that such certificate of title or reconstituted certificate of title was obtained through fraud, in which case the solicitor general or his duly designated representative shall institute the necessary judicial proceeding to cancel the certificate of title or reconstituted certificate of title as the case may be, obtained through such fraud.

With respect to Alejandro, his claim to Lot No. 557 rests on the Deed of Assignment executed between him and Antonio, which had been cancelled; hence, it cannot be confirmed through Republic Act No. 9443.

Effects of the nullity of TCT No. 571

After establishing that neither Mauricio nor Alejandro has title over Lot No. 557, we now resolve the validity of the TCTs that originated from TCTNo. 571.

As a general rule, a person transmits only the rights that he possesses. When innocent third persons, however, purchase or acquire rights over the property relying on the correctness of its certificate of title, courts cannot disregard the rights they acquired and order the cancellation of the certificate. As the third paragraph of section 53 of Presidential Decree No. 1529, otherwise known as the Property Registration Decree, provides:

Section 53. xxx

x x x x

In all cases of registration procured by fraud, the owner may pursue all his legal and equitable remedies against the parties to such fraud without prejudice, however, to the rights of any innocent holder for value of a certificate of title. After the entry of the decree of registration on the original petition or application, any subsequent registration procured by the presentation of a forged duplicate certificate of title, or a forged deed or other instrument, shall be null and void.

Thus, innocent purchasers in good faith may safely rely on the correctness of the certificate of title issued therefor, and neither the law nor the courts can oblige them to go behind the certificate and investigate again the true condition of the property. They are only charged with notice of the liens and encumbrances on the property that are noted on the certificate.

Jurisprudence defines innocent purchaser for value as "one who buys the property of another, without notice that some other person has a right or interest in such property and pays a 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."

PD 1529 has expanded the definition of an innocent purchaser for value to include an innocent lessee, mortgagee, or other encumbrancer for value.

Neither PD 1529 nor jurisprudence, however, has included an innocent donee to the definition, and for good reason. An innocent purchaser for value pays for the full price of the property, while a donee receives the property out of the donor's liberality. Additionally, what the law does not include, it excludes, and a donee is not included in the expansion of the term innocent purchaser for value.

Applying these principles of law in the case at hand, we hold that the Deed of Donation Mauricia issued in favor of her children immediately after getting a copy of TCT No. 571 could not have transferred ownership over Lot No. 557 to her children. Since TCT No. 571 is a fabricated title, it does not indicate ownership over Lot No. 557; thus, the Deed of Donation involving TCT No. 571 could not have conveyed the ownership of Lot No. 557 to Mauricia's children.

Neither could her children claim the status of an innocent purchaser in good faith, as they received the property through donation.

The TCTs issued to Mauricia's children pursuant to the donation should thus be cancelled, as they do not signify ownership over Lot No. 557.

We also note several circumstances that cast doubt over the ignorance of Mauricia's children regarding the fabricated nature of TCT No. 571, viz: (1) the petitioners are their close relatives, who have been residing in Lot No. 557 as early as 1928; (2) their father, Romualdo, signed and recognized a subdivision plan of Lot No. 557 that would divide the lot among all of Alejandro's heirs, including the petitioners; (3) their mother executed the deed of donation as soon as she acquired a copy of TCT No. 571; (4) their mother's nonpayment of taxes due Lot No. 557 since 1946; and (5) the payment of real property taxes only to facilitate the subdivision of Lot No. 557 among them.

Lopez is not an innocent purchaser

for value of Lot 5 57-A

We now determine Lopez's claim that she is an innocent purchaser for value of Lot No. 557-A, and should thus be

allowed to keep her title over it.

The CA, in affirming Lopez's title over Lot No. 557-A, held that she was an innocent mortgagee for value. According to the CA, TCT No. 130517 had no encumbrances and liens at the time it was mortgaged to Lopez, and this status extended to the time that TCT No. 130517 was foreclosed to answer for Rodrigo's loan.

We cannot agree with the CA's conclusion.

As a general rule, a person dealing with registered land has a right to rely on the Torrens certificate of title and to dispense with the need of further inquiring over the status of the lot.

Jurisprudence has established exceptions to the protection granted to an innocent purchaser for value, such as when the purchaser has actual knowledge of facts and circumstances that would compel a reasonably cautious man to inquire into the status of the lot; or of a defect or the lack of title in his vendor; or of sufficient facts to induce a reasonably prudent man to inquire into the status of the title of the property in litigation.

The presence of anything that excites or arouses suspicion should then prompt the vendee to look beyond the certificate and investigate the title of the vendor appearing on the face of the certificate. One who falls within the exception can neither be denominated as innocent purchaser for value nor a purchaser in good faith, and hence does not merit the protection of the law.

In particular, the Court has consistently held that that a buyer of a piece of land that is in the actual possession of persons other than the seller must be wary and should investigate the rights of those in possession. Without such inquiry, the buyer can hardly be regarded as a buyer in good faith.

We find that Lopez knew of circumstances that should have prodded her to further investigate the Lot No. 557-A's status before she executed a mortgage contract over it with Rodrigo.

In the pre-trial brief she submitted before the trial court, Lopez made the following admissions:

xxx Only after these checking did an actual inspection of the properties took (sic) place, but on this occasion, unfortunately, none of the plaintiffs, especially plaintiff Filadelfa T. Lausa, who is found lately to be residing nearby, furnished her the information of the present claims.

She likewise made the same admission in an affidavit, viz:

6. The properties which were mortgaged were checked and no one at that time, even plaintiff Filadelfa T. Lausa who is just residing nearby, disputed that the absolute owners thereof were the spouses Rodrigo and Ligaya Tugot.

While these admissions pertain to the petitioners' act of not telling Lopez of the status of Lot No. 557-A, it implies that she had inspected the property, and accordingly found that Rodrigo did not reside in Lot No. 557-A.

Records of the case show that Filadelfa resided in Lot No. 557-A at the time Lopez executed the real estate mortgage with Rodrigo. In August 1995, Rodrigo and his siblings filed an ejectment case against the petitioners Filadelfa Lausa and Anacleto Caduhay - Filadelfa resides in Lot No. 557-A while Anacleto's in Lot 557-B. Notably, this ejectment case was filed five months after Lopez had entered into the real estate mortgage contract. Thus, at the time Lopez inspected Lot No. 557, she would have found Filadelfa residing in it, and not Rodrigo.

That Filadelfa - and not Rodrigo - resided in Lot No. 557-A should have prompted Lopez to make further inquiries over its status. Further inquiries with the lot owners of surrounding property could have informed her of its actual status. Instead, she contented herself with checking the copy of the title to Lot No. 557-A against the copy in the Registry of Deeds of Cebu, which she had done prior to the actual inspection of Lot No. 557-A. The

law cannot protect Lopez's rights to Lot 557-A given her complacency.

Further, the status of an innocent-purchaser for value or innocent mortgagor for value is established by the person claiming it, an onus probandi that Lopez failed to meet.

In her memorandum, Lopez urged the Court to acknowledge her rights over Lot No. 557-A, arguing that the declaration of her status as an innocent-purchaser and innocent mortgagor is a non-issue because it was never pleaded in her co-respondents' amended complaint. She also pointed out that a valid title can emerge from a fabricated title, and essentially invoked the innocent purchaser for value doctrine.

The amended complaint alleges that Lopez's status as current owner of Lot 557-A prejudices the rights of the petitioners, who are its true owners. The circumstances regarding how Lopez acquired ownership over Lot No. 557-A had also been pleaded therein.

Verily, the amended complaint does not need to allege Lopez's status as an innocent purchaser or mortgagor in good faith precisely because it was incumbent upon her to allege and prove this to defend her title to Lot No. 557-A. It merely needed to allege a cause of action against Lopez, (which it did by alleging the circumstances surrounding Lopez's ownership of Lot No. 557-A) and that it prejudices the petitioners' rights as its true owners.

Further, Lopez chose to ignore in her Memorandum the petitioners' contention that she knew that Filadelfa Lausa, and not Rodrigo, resided in Lot No. 557-A. To reiterate, Lopez has the burden of proving her status as an innocent purchaser for value in order to invoke its application. Failing in this, she cannot avail of the protection the law grants to innocent purchasers for value.

The CA erred in finding that the
petitioners' claim of ownership
over Lot No. 557 had been barred
by prescription and laches

The outcome of the present case dispenses with the need for a discussion regarding extinctive prescription and laches.

We note, however, that the CA erred in applying the principle of prescription and laches to the petitioners' cause of action involving Lot No. 557.

An action for annulment of title or reconveyance based on fraud is imprescriptible where the plaintiff is in possession of the property subject of the fraudulent acts. One who is in actual possession of a piece of land on a claim of ownership thereof may wait until his possession is disturbed or his title is attacked before taking steps to vindicate his right.

The records of the case show that the petitioners resided in the property at the time they learned about TCT No. 571. Being in possession of Lot No. 557, their claim for annulment of title had not expired. Their ownership of Lot No. 571, however, is a different matter.

Effects of the Court's decision

Our decision in the present case does not settle the ownership of Lot No. 557. To recapitulate, our examination of the records and the evidence presented by the petitioners and the respondents lead us to conclude that neither of them own Lot No. 557.

Despite the intent of Act No. 1120 and Republic Act No. 9443 to transfer ownership of the Banilad Friar Estate

Lands to its occupants, we cannot settle the ownership of Lot No. 557 in the present case.

Indeed, the petitioners and the respondents are the actual occupants of Lot No. 557, and they and their families (with the exception of Rosita Lopez) have resided in the lot since 1915.

However, as we have discussed above, neither party had been able to establish their right of ownership, much less possession, of Lot No. 557. The petitioners anchor their claim on acquisitive prescription, which does not lie against registered land or the government. The respondents, on the other hand, presented spurious TCTs. Thus, no amount of liberal interpretation of Act No. 1120 or Republic Act No. 9443 could give either party the right over the lot.

Neither can we ignore the evidence showing that none of them could rightfully own Lot No. 557. The petitioners' cancelled deed of assignment and tax declarations cannot establish their ownership over Lot No. 557; especially since the operation of pertinent laws prevented the possibility of acquisitive prescription. The respondents' TCT No. 571, on the other hand, had several discrepancies indicating that it was a fake.

The exercise of the Court's judicial power settles actual controversies between parties, through which the Court establishes their legally enforceable and demandable rights. We determine the parties' rights based on the application of the law to the facts established through the pieces of evidence submitted by the parties. The application of the law on the facts of the present case establishes that neither party has a legally enforceable right over Lot No. 557.

Given this situation, we direct that the records of the case be transmitted to the Land Management Bureau[6] for further investigation and appropriate action over Lot No. 557 of the Banilad Friar Estate Lands.

Additionally, we direct that a copy of the records of the case be transmitted to the Ombudsman, for further investigation regarding how the fake TCTs covering Lot No. 557 ended up in the Registry of Deeds of Cebu City, and for the criminal and administrative investigation of government officials liable for them.

WHEREFORE, premises considered, the instant Petition for Review on Certiorari is **PARTIALLY GRANTED**. The Court of Appeals Decision in CA-G.R. CV No. 63248 is **MODIFIED**, and the following titles are declared null and void: (1) TCT No. 571 issued to Mauricia Quilaton; (2) TCT No. 130517 issued to Rodrigo Tugot; (3) TCT No. 130518 issued to Purificacion Codilla; (4) TCT No. 130519 issued to Teofra Sadaya; (5) TCT No. 130520 issued to Estrellita Galeos; (5) TCT No. 130521 issued to Rodrigo Tugot; and (6) TCT No. 143511 issued to Rosita Lopez.

The claim of the petitioners Filadelfa T. Lausa, Loreta T. Torres, Primitivo Tugot and Anacleto T. Caduhay for recognition of their ownership over Lot No. 557 is **DENIED**.

We **DIRECT** that a copy of the records of the case be transmitted to the Land Management Bureau and the Ombudsman for further investigation and appropriate action.

SO ORDERED.

Carpio, (Chairperson), Del Castillo, Mendoza, and Leonen, JJ., concur.

[1] TCT No. 130517 was issued in Rodrigo's name; TCT No. 130518 in Purificacion's name; TCT No. 130519 in Teofra's name; TCT No. 130520 in Estrellita's name; and TCT No. 130521 in Rodrigo's name.

[2] A criminal complaint for falsification of TCT No. 571 against the respondents Rodrigo, Purificacion, Teofra, Estrellita and Mauricia. They also filed a criminal complaint for three counts of perjury against Mauricia for

perjuring statements in her petition for issuance of a new owner's duplicate of TCT No. 571.

[3] G.R. No. 171982, August 18, 2010, 628 SCRA 404.

[4] This Deed of Donation, whereby Sotero Codilla donated Lot No. 558 to Encarnacion Codilla in 1934, included Lot No. 557 as one of Lot No. 558's boundaries.

[5] In the sale of friar lands, upon execution of the contract to sell, a certificate of sale is delivered to the vendee and such act is considered as a conveyance of ownership, subject only to the resolutory condition that the sale may be rescinded if the agreed price shall not be paid in full.

[6] The Land Management Bureau is the government agency responsible for administering, surveying, managing, and disposing alienable and disposable lands of the government.

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