

**LLOYD'S ENTERPRISES AND CREDIT CORPORATION,
PETITIONERS, VS. SPS. FERDINAND AND PERSEVERANDA
DOLLETON, RESPONDENTS.***G.R. No. 171373. June 18, 2008*Read online (full-text search, related cases, audio case brief): <https://batas.org/library/g-r-no-171373/>**TINGA, J.:**

This is a petition for review on certiorari under Rule 45 of the 1997 Rules of Civil Procedure, assailing the Decision[1] and Resolution[2] of the Court of Appeals in CA-G.R. CV No. 82017. The Court of Appeals' decision affirmed with modification the decision of the Regional Trial Court (RTC) of Muntinlupa City, Branch 276 in Civil Case No. 98-086 which, among others, nullified the property sale between herein respondents and defendant Blesilda Gagan (Gagan) and the subsequent mortgage to petitioner and foreclosure of the subject property.

Respondents, spouses Ferdinand and Perseveranda Dolleton, were the registered owners of a parcel of land situated in Barangay Putatan, Muntinlupa City and covered by Transfer Certificate of Title (TCT) No. 153554. Erected on the 166-sq m property is a four-door apartment building being leased by respondents to various tenants. On 9 August 1990, respondents mortgaged the property to a certain Joseph Patrick Santos (Santos) to secure a loan in the amount of P100,000.00. Upon payment of the loan on 15 August 1994, Santos executed a release and cancellation of the mortgage. The same was annotated on the TCT.

On 15 September 1994, TCT No. 153554 in the name of respondents was cancelled and a new TCT No. 197220 was issued in the name of Gagan on the basis of a Deed of Absolute Sale dated 5 August 1994 whereby respondents purportedly sold to Gagan the subject property for the sum of P120,000.00.

On 19 September 1994, petitioner Lloyd's Enterprises and Credit Corporation lent to Gagan and her live-in partner, a certain Feliciano Fajardo Guevarra (Guevarra) the sum of P391,512.00. The loan was secured by a real estate mortgage on the subject property, which was duly annotated on TCT No. 197220 on 27 September 1994. After payment of the loan, petitioner executed a Cancellation of Mortgage, which was annotated on the same TCT on 14 September 1995. On even date, petitioner granted another loan to Gagan and Guevarra for a bigger sum of P542,928.00, as evidenced by a promissory note dated August 1995. A new real estate mortgage was constituted over the property. This undated mortgage deed appears to have been notarized in 1995. The second real estate mortgage was likewise annotated on the TCT on 14 September 1995.

Gagan and Guevarra failed to pay the second loan upon its maturity. Thus, petitioner instituted extrajudicial foreclosure proceedings on the subject property. At the auction sale conducted by Sheriff-in-charge Melvin T. Bagabaldo, petitioner's bid of P645,000.00 was declared the highest.[3] The property was not redeemed within the one-year period, hence, ownership was consolidated in favor of petitioner. On 29 September 1997, TCT No. 197220 in the name of Gagan was cancelled and TCT No. 210363 was issued in the name of petitioner.

Petitioner sent notices to the apartment tenants informing them about the transfer of the property to petitioner and allowing them the option either to vacate the apartment or to pay a monthly rental of P2,000.00. Thus, the apartment tenants did not remit the rentals to respondents anymore, prompting the latter to cause the annotation of

an adverse claim on TCT No. 210363 on 15 December 1997.

On 7 May 1998, respondents filed a complaint, praying among others for the nullification of the Deed of Absolute Sale, the two real estate mortgage contracts and the extrajudicial foreclosure proceedings; the cancellation of TCT Nos. 197220 and 210363; and the restoration of TCT No. 153554 in the name of respondents.[4] Named defendants were Gagan, Guevarra, herein petitioner, the Sheriff-in-charge of the RTC of Muntinlupa and the Office of the Register of Deeds for Makati.

In the said complaint,[5] respondents denied having executed the Deed of Absolute Sale and alleged that they had merely offered to sell to defendant Gagan the subject property for P900,000.00 on installment basis so that they could pay their loan obligation to Santos. They averred that after defendant Gagan had initially paid P200,000.00, they entrusted the owner's copy of TCT No. 153554 to defendant Gagan who however undertook to effect the cancellation of the mortgage in favor of Santos and to prepare the contract of sale on installment basis. Respondents further alleged that except for the additional amount of P185,000.00, defendant Gagan was unable to pay the balance of the purchase price. They also accused Gagan of having caused the fraudulent cancellation of TCT No. 153554 and the issuance of TCT No. 197220 in her name, and of eventually using TCT No. 197220 to secure the loans obtained from petitioner. Respondents also faulted petitioner for failing to make adequate inquiries on the true ownership of the property considering the suspicious circumstances surrounding Gagan's and Guevarra's request for loan immediately after the issuance of the new certificate of title.

The summons on defendants Gagan and Guevarra were returned unserved as their whereabouts were unknown. Upon motion by respondents, the RTC directed the issuance and service of alias summons by publication.[6] Subsequently, defendants Gagan and Guevarra were declared in default for failure to file their responsive pleading to the complaint that was published in a newspaper of general circulation.[7]

In its answer with counterclaim,[8] petitioner raised the defense of lack of cause of action, asserting that it exercised due diligence in verifying the status of the subject property and that it would not have accepted the same as security for the loan if the title were not clean. It also claimed that respondents were guilty of estoppel by laches as they failed to take the necessary measures to protect their rights and interest. Petitioner also filed an amended answer with counterclaim, which included a cross-claim against defendants Gagan and Guevarra for the amount of the purchase price at the foreclosure sale and for the litigation expenses. Petitioner's cross-claim pleaded that in the event that its certificate of title over the subject property be cancelled, defendants Gagan and Guevarra should be held solidarily liable for P645,000.00, which is the amount petitioner paid at the foreclosure sale, plus additional expenses incurred in transferring the subject property and in defending its rights and interest as a consequence of the filing of the case.

After trial, the RTC rendered judgment declaring the Deed of Absolute Sale dated 5 August 1994 as spurious. The dispositive portion of the 8 November 2003 RTC Decision reads:

PREMISES CONSIDERED, this Court is not convinced that defendant Lloyd Enterprises and Credit Corporation is a mortgagee in good faith, the mortgage in their favor being illegal and fraudulently obtained with the use of a title issued thru misrepresentations and [a] forged document, did not confer ownership on the forger. The mortgage over this property, is not a valid encumbrance, which did not give a right to the said defendant, to foreclose and take ownership. The loan not obtained by the true owners of the property, equity and fairness demands that they should not suffer from that unfaithful conveyance, much more, forfeit ownership of their parcel of land and the improvements thereon. Defendants had the unconscionable and unscrupulous intentions to get the land with improvement, hence neglected to check its ownership, are not mortgagees in good faith.

Defendants are therefore directed to reconvey the property to the true and genuine owners, the spouses

Ferdinand and Perseveranda Dolleton, not being mortgagees in good faith, while the mortgage itself over a parcel not owned by the mortgagors, did not confer a valid mortgage. It cannot be a basis of a valid foreclosure. It is not even legally recorded, hence no date to reckon the maturity of their loan.

Defendants are further directed to remit payment of rental of the property to the plaintiffs from December 1998 to the present on the rental sum equal to the totality of the monthly rental from the said date to the present, at the amount being paid and received by the Defendant from the tenants of the apartments, or in the total sum of P525,600.00.

Plaintiffs are also entitled to moral damages in the amount of P300,000.00 with exemplary damages in the amount of P300,000.00.

Since plaintiffs were forced to prosecute this claim, Plaintiffs incurred actual expenses of P50,000.00 which should be refunded to them by defendant.

Plaintiffs were also forced to litigate to defend and enforce their rights of ownership over this parcel of land subject of this litigation, attorney's fees of P100,000.00 is also adjudged against defendant, as well as the cost of this litigation.

IT IS SO ORDERED.[9]

On 20 December 2005, the Court of Appeals rendered the assailed decision, modifying the award of moral and exemplary damages from P300,000.00 for both respondents to P200,000.00 for each of the respondents. The appellate court rejected the RTC's factual finding that the two loans were granted simultaneously to defendants Gagan and Guevarra. Just the same, it upheld the finding that the Deed of Absolute Sale was a forgery and that petitioner was grossly negligent in accepting the mortgage as security for the loan. In a Resolution[10] dated 6 February 2006, the Court of Appeals denied petitioner's Motion for Reconsideration[11] for lack of merit.

Petitioner filed a Petition for Review on Certiorari,[12] which the Court initially denied in a Resolution dated 5 June 2006 on the ground that the issues raised are factual and that the petition failed to sufficiently show that the appellate court committed any reversible error. Petitioner filed a motion for reconsideration, which was granted in a Resolution dated 28 August 2006. The said resolution also directed the reinstatement of the petition and the filing of a comment thereon.

The instant petition raises the following arguments:

- WHETHER OR NOT THE HONORABLE COURT OF APPEALS COMMITTED A REVERSIBLE ERROR IN LAW WHEN IT FAILED TO DECLARE PETITIONER AS MORTGAGEE IN GOOD FAITH AS THE LATTER TOOK THE NECESSARY STEPS WHICH AN ORDINARY AND PRUDENT MAN WOULD HAVE TAKEN BEFORE BUYING THE PROPERTY IN QUESTION;
- WHETHER OR NOT THE COURT OF APPEALS ERRED WHEN IT RULED THAT THE PETITIONER IS LIABLE FOR DAMAGES WHEN THE RESPONDENT IS NOT ENTIRELY WITHOUT FAULT;
- WHETHER OR NOT THE COURT OF APPEALS ERRED WHEN IT FAILED TO RULE ON THE LIABILITY OF THE GAGANS IN THIS CASE;
- WHETHER OR NOT THE AMOUNT OF DAMAGES AWARDED BY THE HONORABLE COURT OF APPEALS IS CONSISTENT WITH THE EXISTING JURISPRUDENCE AND NORMS OF MORALITY.[13]

First, petitioner insists that it is a mortgagee in good faith because it is not privy to the transaction between respondents and defendant Gagan or to the source of the invalid title.

Whether petitioner is a mortgagee-purchaser in good faith and for value is a factual issue. In a petition for review, only questions of law may be raised. Even though there are exceptions, petitioner did not show that this case is one of them.[14] Moreover, the RTC and the Court of Appeals concur that petitioner did not exercise due diligence in ascertaining the true ownership of the subject property, notwithstanding the existence of circumstances which should have impelled it to investigate further. Well-settled is the rule that factual findings of the RTC, when affirmed by the Court of Appeals, are accorded great weight and respect by this Court.

We quote with approval the following observations of the Court of Appeals:

In this case, appellant LECC merely submitted in evidence forms for credit investigation haphazardly accomplished by its supposed credit investigators who were not presented as witnesses in court. While their report on the credit check for the September 1994 and August 1995 loans indicated that they verified on the borrower's capacity to pay, there is no showing that they actually inspected the property offered as collateral. As correctly noted by the trial court, had this precautionary measure been taken, the lending company's representatives would have easily discovered that the four (4)-door apartment in the premises being mortgaged is rented by tenants and they could have been provided with information that plaintiffs-appellees are still the present lessors/owners thereof.

x x x

Hence, such gross negligence in failing to verify the actual condition of the property, particularly as to who is in actual possession and if the premises are leased to third persons, who is receiving the rental payments therefore, hardly makes the appellant LECC a mortgagee in good faith. x x x[15]

Moreover, the circumstance that the certificate of title covering the property offered as security was newly issued should have put petitioner on guard and prompted it to conduct an investigation surrounding the transfer of the property to defendant Gagan. Had it inquired further, petitioner would have discovered that the property was sold for an unconscionably low consideration of only P120,000.00 when it could have fetched as high as P900,000.00.[16] A purchaser cannot close his eyes to facts which should put a reasonable man on his guard and claim that he acted in good faith under the belief that there was no defect in the title of the vendor. His mere refusal to believe that such defect exists or the willful closing of his eyes to the possibility of the existence of a defect in his vendor's title, will not make him an innocent purchaser for value if it afterwards develops that the title was in fact defective, and it appears that he had such notice of the defect as would have led to its discovery had he acted with that measure of precaution which may reasonably be required of a prudent man in a like situation.[17]

We cannot sustain petitioner's claim that it should not be required to look beyond the certificate of title for flaws in the ownership of the property in view of the presumption that a Torrens title is regularly issued and that the burden is on respondents to rebut the presumption of good faith.

Petitioner is engaged in the business of extending credit to the public and is, thus, expected to exercise due diligence in dealing with properties offered as security. In *Expresscredit Financing Corporation v. Spouses Velasco*, [18] the Court held that entities engaged in the business of offering real estate loans must exercise a higher degree of caution in accepting properties as security, thus:

x x x To fulfill the requirement of good faith, it is imperative for a mortgagee of the land, in the possession of persons not the mortgagor, to inquire and investigate into the rights or title of those in possession. It is true that a person dealing with the owner of registered land is not bound to go beyond the certificate of title. He may rely on the notices of the encumbrances on the property annotated on the certificate of title or absence of any annotation. However, we note that the Garcia spouses are unlike other mortgagors. They are in the business of constructing and selling townhouses and are past masters in real estate transactions. Further, petitioner is in the

business of extending credit to the public, including real estate loans. In both these businesses, it devolves upon both, greater charge than ordinary buyers or encumbrancers for value, who are not in such venture. It is standard in their business, as a matter of due diligence required of banks and financing companies, to ascertain whether the property being offered as security for the debt has already been sold to another to prevent injury to prior innocent buyers. They also have the resources to ascertain any encumbrances over the properties they are dealing with.[19]

In *Agag v. Alpha Financing Corp.*, [20] the Court explicitly declared that when the purchaser or mortgagee is a financing institution, the general rule that a purchaser or mortgagee of land is not required to look further than what appears on the face of the title does not apply. The Court explained, thus:

So also, in *Cruz v. Bancom Finance Corporation*, a case for reconveyance of property against a purchaser in a foreclosure sale, it was stressed that the due diligence required of banks extended even to persons regularly engaged in the business of lending money secured by real estate mortgages. Their expertise or experience in dealing with encumbrances on lands, not to mention the public interest affecting their business, require them to exercise more care and prudence in dealing even with registered lands.

Respondent, being a financial institution, cannot claim good faith considering that neither it nor the alleged mortgagee bank was in possession of the lots prior and after the foreclosure sale. Had respondent conducted an ocular inspection of the premises, this being the standard practice in the real estate industry, it would have discovered that the land is occupied by petitioner. The failure of respondent to take such precautionary steps is considered negligence on its part and would thereby preclude the defense of good faith.[21]

Petitioner also contends that respondents are not without fault in carelessly allowing defendant Gagan to obtain the certificate of title and cause the fraudulent transfer of the property. It asserts that when one of two innocent persons must suffer by the wrongful act of a third person, the loss falls on him who had put it into the power of that third person to perpetrate the wrong.

In *Adriano v. Pangilinan*, [22] petitioner therein also entrusted the certificate of title of his property to a third person who fraudulently caused the annotation of a real estate mortgage on the title in favor respondent. The Court held that respondent, who was engaged in the real estate business but failed to verify the essential facts, should bear the loss because his negligence was the primary, immediate and overriding reason that put him in his predicament.[23]

Applying the principle in *Adriano*, petitioner must bear the loss of the property because of its failure to ascertain the true ownership of the subject property, notwithstanding the fact that it is engaged in the business of offering real estate loans to the public and is, therefore, required to exercise a higher degree of diligence in investigating the status and condition of the properties offered as securities.

Petitioner, however, is not without relief even at this juncture. It correctly filed a cross-claim against defendants Gagan and Guevarra for the purchase price of the foreclosed property in the amount of P645,000.00 plus other expenses of transfer and litigation, the actual damages it incurred at the foreclosure sale, and all other expenses for which petitioner may be held liable. Although the RTC and the Court of Appeals failed to resolve the cross-claim, to avoid further delay, this Court can very well adjudicate upon the liabilities of defendants Gagan and Guevara to petitioner. Petitioner submitted in evidence a copy of the sheriff's certificate of sale, evincing that petitioner paid the amount of P645,000.00 at the foreclosure sale of the subject property.[24] However, as to other alleged actual expenses incurred by petitioner as a result of the filing of the case, no evidence was offered to prove the same. Defendants Gagan and Guevara should ultimately bear the damages incurred by petitioner at the foreclosure sale, considering that no evidence was presented to prove petitioner's complicity in the forgery of the Deed of Absolute Sale and that the instant controversy arose because of the acts of defendants Gagan and Guevara.

One last point. Petitioner asks the Court to reduce its liability for moral and exemplary damages in accordance with *Cavite Development Bank v. Lim*[25] where petitioner-bank was also found negligent in failing to ascertain the mortgagor's title to the property offered as security. The Court however found excessive the RTC's award of moral and exemplary damages and accordingly reduced the amounts involved to P50,000.00 and P30,000.00, respectively. In the instant case, the Court of Appeals modified the award by ordering the payment of moral damages of P200,000.00 and exemplary damages of P200,000.00 both to each respondents, or a total of P800,000.00. The Court finds the increase in the award of damages unjustified under the circumstances and, thus, reinstates the award of the RTC.

Except for the modified award of moral and exemplary damages due the respondents, the Court of Appeals decision affirmed, albeit impliedly, the RTC decision in all other respects including the award of actual litigation expenses and attorney's fees.

WHEREFORE, the instant petition for review on certiorari is partially granted and the Decision of the Court of Appeals in CA-G.R. CV No. 82017 is **AFFIRMED IN ALL RESPECTS** with the following **MODIFICATIONS**: (1) the other monetary awards granted by the Regional Trial Court, Branch 276, Muntinlupa City are **RESTORED** and petitioner is accordingly **ORDERED** to pay respondents moral damages of P300,000.00, exemplary damages of P300,000.00, actual litigation expenses of P50,000.00 and attorney's fees of P100,000.00; and (2) defendants Blesilda Gagan and Feliciano Fajardo Guevarra are **ORDERED** to pay jointly and severally petitioner Lloyd's Enterprises and Credit Corporation on its cross-claim the amount of P645,000.00, plus legal interest of 6% per annum from the date of the RTC Decision. Costs against petitioner.

SO ORDERED.

Quisumbing, (Chairperson), Reyes, Leonardo De-castro, and Brion,. JJ., concur.

[1] Dated 20 December 2005; penned by J. Martin S. Villarama, Jr. and concurred in by JJ. Edgardo F. Sundiam and Japar B. Dimaampao, members of the Eleventh Division; rollo, pp. 40-67.

[2] Dated 6 February 2006; id. at 69.

[3] Records, pp. 494-495.

[4] Id. at 19-20.

[5]Id. at 1-23.

[6]Id. at 200.

[7] Id. at 296.

[8] Id. at 154-165.

[9] Rollo, pp. 207-208.

[10] Supra note 2.

[11] Id. at 243-249.

[12] Id. at 14-36.

[13] Id. at 24-30.

[14] Villarico v. Court of Appeals, 424 Phil. 26, 32 (2002).

[15] Rollo, pp. 62-63.

[16] Id. at 25.

[17] Expresscredit Financing Corporation v. Velasco, G.R. No. 156033, 20 October 2005, 473 SCRA 570, 580.

[18] G.R. No. 156033, 20 October 2005, 473 sCRA 570.

[19] Id. at 578-579.

[20] 455 Phil. 397 (2003).

[21] Id. at 409.

[22] 424 Phil. 578 (2002).

[23] Id. at 595.

[24] Supra note 3.

[25] 381 Phil. 355 (2000).

ABOUT BATAS.ORG

Study smarter at BATAS.org

The Philippine bar review and law-school companion built around how your brain actually remembers.

The complete Philippine law library - free for everyone.

More than 100,000 Supreme Court decisions, Republic Acts, and executive issuances - full-text searchable, browsable by category and year, and always free. No paywall, no login. This PDF came from it.

Audio case-brief lectures.

Any decision becomes a podcast-style lecture - facts, issues, ruling, and doctrine - with read-along highlighting and a hands-free presentation mode. Study while commuting, working out, or resting your eyes.

Bar review built on the science of memory.

Complete, sequenced courses for all eight bar subjects, narrated like podcasts and reinforced with retrieval practice and spaced review - the study techniques with the strongest evidence behind them.

The full law-school curriculum.

One subscription unlocks the entire J.D. curriculum - every subject, every lesson, with your progress tracked down to the paragraph so you can pick up exactly where you left off, on any device.

Mock exams that tell you where you stand.

Timed multiple-choice exams graded instantly, with per-subject score breakdowns and focus suggestions that point you at your weakest topics first.

A study planner that keeps you on pace.

Set your schedule and BATAS tells you every day whether you are on track for bar day - and exactly which lesson to take next.

Start free at <https://batas.org>

The law library is free forever - and your first lesson is one click away.

The text of this document is an official public record and remains in the public domain. Formatting, presentation, and compilation © 2026 batas.org.

Downloaded free from the batas.org Law Library. Share it freely - the library is free for every law student, bar reviewee, and practitioner.