

SAN MIGUEL CORPORATION, PETITIONER, VS. LEONARA FRANCISCO VDA. DE TRINIDAD, SPS. TEODORICO F. TRINIDAD AND SUSANA COSME-TRINIDAD, SPS. GEMMA F. TRINIDAD-GANDIONCO AND ALFREDO M...

G.R. No. 237506. July 28, 2020

Ponente: REYES, J. JR., J.

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REYES, J. JR., J.:

Through this Petition for Review on Certiorari[1] under Rule 45 of the Rules of Court petitioner San Miguel Corporation (SMC) seeks a review of the Court of Appeals' (CA) Decision[2] dated October 10, 2017 and Resolution[3] dated February 14, 2018 which denied SMC's appeal, and, thus, affirmed the Regional Trial Court's (RTC) Decision dated August 28, 2014 which voided the real estate mortgages (REMs) and subsequent foreclosure over the subject properties for lack of authority to mortgage on the part of the attorney-in-fact.

Facts

Respondents Leonara Francisco Vda. De Trinidad, Teodorico F. Trinidad, Gemma Trinidad-Gandionco, Manuel F. Trinidad, and Grace F. Trinidad (collectively, Trinidad, et al.,) are the registered co-owners of two parcels of land located at Pamplona, Las Pinas City, and covered by Transfer Certificate of Title (TCT) Nos. T-6346 and T-6347. Respondent Gemma Trinidad-Gandionco (Gemma) is the registered owner of two parcels of land, likewise located at Pamplona, Las Pinas City, and covered by TCT Nos. T-5433 and T-52796.[4]

Gemma's brother-in-law, respondent Roberto N. Gandionco (Roberto) opened a beer dealership for Masbate City with SMC. One of SMC's standard requirements for a dealership is the submission of sufficient collateral, in money or other valuable properties, to secure the beer stocks to be taken out from SMC.[5]

As such, Roberto approached Gemma and asked for help with the submission of the collateral requirement. Gemma lent TCT No. T-52796, and allowed Roberto to offer the same as collateral. After three months, Roberto again approached Gemma for additional collateral as the value of the property covered by TCT No. T-52796 was insufficient. Gemma again acceded and lent TCT No. T-5433 to Roberto.[6] In 2005, Roberto again asked Gemma if there is another property that can be offered to SMC so Roberto can obtain additional stocks. After obtaining the consent of Trinidad, et al., Roberto was lent TCT No. T-6347. For the fourth time, in 2007, Roberto asked from Gemma if he could offer another property to SMC so he could obtain additional stock. Again, after obtaining the consent of Trinidad, et al., Roberto was lent TCT No. T-6346.

In these four instances, Gemma and Trinidad, et al., executed the corresponding special power of attorney (SPA) in favor of Roberto, which were similarly-worded and varying only as to the property involved, as follows:

To offer as collateral, security or property bond with [SMC] a parcel of land located at Las Pinas City containing an area of square meters and all improvements thereon and covered by TCT No. ____.

HEREBY GIVING AND GRANTING unto my/our said Attorney-in-Fact full power and authority whatsoever

requisite necessary to be done in and about the premises as fully to all intents and purposes as I/WE might or could lawfully do if personally present and acting; and

HEREBY RATIFYING AND CONFIRMING all that my/our Attorney-in-Fact shall lawfully do or cause to be done under and by virtue of these presents.[7]

When asked about the status of the certificates of title, Roberto would explain that the titles were still in SMC's possession which has yet to decide which title to accept as collateral. It was the understanding of Gemma and Trinidad, et al., that should SMC accept their certificates of title as collateral, Roberto would bring the necessary documents from SMC which Gemma and Trinidad, et al., would then sign.[8]

However, using the SPAs, Roberto executed REMs over the properties covered by TCT Nos. T-6347 and T-5433, both in favor of SMC. These mortgages were annotated on the titles.

Meantime, Roberto availed of beer stocks from SMC which he regularly paid. However, in August 2007, 18 successive post-dated checks issued by Roberto were dishonored, leaving unpaid obligations amounting to about Seven Million Pesos (P7,000,000.00).[9] When efforts to collect failed, SMC undertook to extra-judicially foreclose the REMs. At the foreclosure sale, SMC emerged as the highest bidder.

In 2008, Gemma and Trinidad, et al., learned that Roberto's business had closed down, and that Roberto surreptitiously mortgaged two of their properties. Consequently, Gemma and Trinidad et al., executed four revocations of the SPAs wherein they cancelled all the SPAs issued in favor of Roberto. They also wrote a letter to SMC informing the latter that the SPAs had been revoked.[10] No reply was given by SMC until Gemma and Trinidad, et al., learned of the foreclosure proceedings.

Aggrieved, Gemma and Trinidad, et al., filed the complaint a quo for the annulment of mortgage and foreclosure sale and for the recovery of their titles.

In their Answer with Compulsory Counterclaim and Cross-claim, SMC argued that the revocations of the SPAs were belatedly made as the REMs were already constituted over the properties. Thus, SMC argued, at the time the REMs were made, the SPAs were still valid and constituted sufficient authority for Roberto to enter into the mortgage contract. SMC also denied the allegation that they knew of Roberto's limited authority and that the REMs were entered into surreptitiously. Finally, SMC contended that Gemma and Trinidad, et al., were guilty of laches as they only questioned the validity of the REMs when there was a threat of actual foreclosure.[11]

Roberto did not file any answer, and, as such, was declared in default.[12]

On August 28, 2014, the RTC rendered its Decision voiding the REMs, and, consequently, the extra-judicial foreclosure over the properties. According to the RTC, Roberto's authority is only to offer the subject properties as collateral. It held that SMC should have been placed on guard by the fact that the SPAs were long executed before the REMs were entered into.[13] The RTC also directed SMC to return to Gemma and Trinidad, et al., their Owner's Duplicate copies of TCT Nos. T-6346, T-6347, T-5433, and T-52796. It also directed SMC to pay moral damages, attorney's fees, and costs of suit.

SMC's cross-claim against Roberto was likewise dismissed by the RTC on account of SMC's failure to prove Roberto's liability. The RTC noted that SMC did not present evidence, such as receipts, to prove Roberto's liability, and, merely relied on the Certificate of Sale.

SMC's motion for reconsideration was similarly denied, thus, it brought the case to the CA on appeal.

SMC argued that the RTC erred in finding that the SPAs in favor of Roberto did not include the authority to mortgage or encumber the property. SMC also questioned the award of damages and attorney's fees, as well as the

dismissal of its cross-claim against Roberto.

In its presently assailed Decision, the CA dismissed SMC's appeal. The CA held that a power of attorney must be strictly construed. The subject SPAs merely authorized Roberto to offer the subject properties as collateral, but not to enter into a mortgage contract. According to the CA, to interpret the SPAs as likewise giving Roberto the power to mortgage the property is to unduly enlarge the term "to offer." Because Roberto exceeded his authority, the CA concluded that no valid mortgage was constituted over the properties, and, as such, the ensuing extra-judicial foreclosures by SMC are likewise void.

As regards SMC's cross-claim against Roberto, the CA sustained its denial as SMC failed to introduce evidence in support of SMC's claim that Roberto was liable for the amount of P7,000,000.00. According to the CA, the Certificate of Sale does not prove Roberto's liabilities but merely establishes the fact that SMC was awarded as the highest bidder at the foreclosure sale.

Finally, the CA deleted the award for moral damages and attorney's fees for lack of proof that SMC acted in bad faith.

In disposal, the CA held:

WHEREFORE, premises considered, the Appeal is DENIED. The Assailed Decision dated 28 August 2014 in Civil Case no. 08-0093 is AFFIRMED with MODIFICATIONS in so far as the award for moral damages in the amount of Five Hundred Thousand Pesos (Php 500,000.00) and the award of attorney's fees and costs of suit in the amount of Three Hundred Thousand Pesos (Php 300,000.00) are hereby DELETED.

SO ORDERED.

Thus, SMC's resort to the present petition raising the following:

Issues

Whether the [CA] erred when it affirmed the trial court's ruling that the SPAs did not include the authority to mortgage the property, despite the attendant circumstances in the case.

Whether the [CA] erred in denying the cross-claims of SMC against [Gandionco], considering that [Gandionco] was declared in default, applying Section 3 of Rule 9 of the Rules of Court.[14]

Ruling of the Court

The petition is partly granted.

The SPAs specifically authorizing Roberto to offer the properties as collateral constitutes sufficient authority to enter into a contract of mortgage

For a contract of mortgage to be valid, the following essential requisites must be met: first, that the mortgage is constituted to secure the fulfillment of a principal obligation; second, the mortgagor is the absolute owner of the thing mortgaged; and third, the persons constituting the mortgage have the free disposal of their property, and in the absence thereof, that they be legally authorized for the purpose. Third persons not parties to the principal obligation may secure such obligation by mortgaging their own property.[15]

In the instant case, it was Roberto who obtained certain obligations from SMC which he secured with the subject properties. The properties, are, in turn, owned by Gemma and Trinidad, et al., who are third parties in relation to the principal obligation of Roberto to SMC. Since Gemma and Trinidad, et al., were not the ones who personally

mortgaged their properties to secure Roberto's obligations with SMC, the query to be had is whether Roberto was legally authorized to do so.

Article 1878[16] of the Civil Code requires an SPA in cases where real rights over immovable property are created or conveyed. Here, the SPAs specifically authorized Roberto to "offer as collateral" to SMC the subject properties, to wit:

To offer as collateral, security or property bond with [SMC] a parcel of land located at Las Pifias City containing an area of square meters and all improvements thereon and covered by TCT No._____.

HEREBY GIVING AND GRANTING unto my/our said Attorney-in-Fact full power and authority whatsoever requisite necessary to be done in and about the premises as fully to all intents and purposes as I/WE might or could lawfully do if personally present and acting; and

HEREBY RATIFYING AND CONFIRMING all that my/our Attorney-in-Fact shall lawfully do or cause to be done under and by virtue of these presents.[17]

The language of the subject SPAs are clear and unambiguous. In interpreting contracts, Article 1370 of the Civil Code unequivocally provides that "if the terms of a contract are clear and leave no doubt upon the intention of the contracting parties, the literal meaning of its stipulations shall control." [18] This is similar to the "plain meaning rule" which assumes that the intent of the parties to an instrument is "embodied in the writing itself, and when the words are clear and unambiguous the intent is to be discovered only from the express language of the agreement." [19]

Contrary to the CA's ruling, the phrase "to offer" the subject properties "as collateral, security or property bond with SMC," coupled with the "full power and authority" to do all that is necessary for all intents and purposes of the contract, is a specific and express authority to mortgage the subject properties in favor of SMC. This is so considering that the presentation of the TCTs by Roberto to SMC was for the purpose of complying with the collateral requirement for the dealership. As such, executing the real estate mortgages and registering the same with the register of deeds are well within the scope of the authority granted.

It is of no moment that it was the supposed "understanding" of the registered owners that "should SMC accept their certificates of title as collateral, Roberto would bring the necessary documents from SMC which [the registered owners] would then sign." [20] Article 1900 of the Civil Code expressly states that "[s]o far as third persons are concerned, an act is deemed to have been performed within the scope of the agent's authority, if such act is within the terms of the power of attorney, as written, even if the agent has in fact exceeded the limits of his authority according to an understanding between the principal and the agent." Article 1902 likewise unequivocally states that "[p]rivate or secret orders and instructions of the principal do not prejudice third persons who have relied upon the power of attorney or instructions shown to them."

Assuming, however, that Roberto exceeded the limits of his authority under the SPA and such unauthorized acts were not ratified by Gemma and Trinidad, et al., the latter are still bound by the mortgages entered by Roberto under the doctrine of apparent authority. As explained in *Woodchild Holdings, Inc. v. Roxas Electric and Construction Co., Inc.*: [21]

It bears stressing that apparent authority is based on estoppel and can arise from two instances: first, the principal may knowingly permit the agent to so hold himself out as having such authority, and in this way, the principal becomes estopped to claim that the agent does not have such authority; second, the principal may so clothe the agent with the indicia of authority as to lead a reasonably prudent person to believe that he actually has such authority. There can be no apparent authority of an agent without acts or conduct on the part of the principal and such acts or conduct of the principal must have been known and relied upon in good faith and as

a result of the exercise of reasonable prudence by a third person as claimant and such must have produced a change of position to its detriment. The apparent power of an agent is to be determined by the acts of the principal and not by the acts of the agent.

For the principle of apparent authority to apply, the petitioner was burdened to prove the following: (a) the acts of the respondent justifying belief in the agency by the petitioner; (b) knowledge thereof by the respondent which is sought to be held; and, (c) reliance thereon by the petitioner consistent with ordinary care and prudence.[22] x x x (Citations omitted)

In this case, in addition to executing similarly worded SPAs expressly authorizing Roberto to offer specific properties as collateral and to do all things necessary in furtherance of said purpose, Gemma and Trinidad, et.al., delivered their original owner's duplicate TCTs to Roberto. This happened not only once, but even on four separate occasions, and this made possible the execution of the mortgages on two of the properties, their registration, and the delivery by SMC of beer stocks to Roberto.

In *Domingo v. Robles*,[23] which involved a purportedly forged sale made with the aid of an agent who had possession of the original owner's duplicate TCTs, the Court upheld the sale and held:

The sale was admittedly made with the aid of Bacani, petitioner's agent, who had with him the original of the owner's duplicate Certificate of Title to the property, free from any liens or encumbrances. The signatures of Spouses Domingo, the registered owners, appear on the Deed of Absolute Sale. Petitioner's husband met with Respondent Yolanda Robles and received payment for the property. The Torrens Act requires, as a prerequisite to registration, the production of the owner's certificate of title and the instrument of conveyance. The registered owner who places in the hands of another an executed document of transfer of registered land effectively represents to a third party that the holder of such document is authorized to deal with the property.[24]

Although the present case involves an SPA and not an executed deed, the Court finds the above quoted-ruling applicable by analogy since Roberto's possession of the SPAs and the owner's duplicates of the TCTs made it appear to SMC that he had the requisite authority to execute the REMs, and to register the same with the register of deeds.

Furthermore, Gemma and Trinidad, et al. did not exercise even the slightest diligence to ascertain the whereabouts of their owner's duplicate TCTs, but instead relied on Roberto's explanation that the titles were still in SMC's possession which has yet to decide which title to accept as collateral when asked about the status of the certificates of title. They only revoked the SPAs executed in favor of Roberto upon receiving news that Roberto's business had closed down, and that Roberto was able to mortgage two of their properties. Again, assuming that Roberto exceeded his authority under the SPAs, Gemma and Trinidad, et al., must be bound by the mortgages executed by the former, for "as between two innocent persons, one of whom must suffer the consequences of a breach of trust, the one who made it possible by his act of confidence must bear the loss." [25]

On the basis of the foregoing, a reversal of the assailed C A ruling is in order. Nevertheless, SMC's prayer for award of moral damages (in the amount of P500,000.00), exemplary damages (in the amount of P100,000.00), and attorney's fees and litigation expenses (in the amount of P600,000.00) must be denied, as its present petition does not even allege the factual and legal bases in support thereof.

Remand necessary to determine
Roberto's outstanding liability to
SMC, if there is any

Roberto's indebtedness to SMC is undisputed. While the Court rules that the mortgages executed by Roberto over

the subject properties are valid, it must be clear that Roberto's indebtedness to SMC arose from the dealership which he entered into in his personal capacity, and not on behalf of Gemma and Trinidad, et al. Thus, Gemma and Trinidad, et al., can only be considered as third-party or accommodation mortgagors, and can only be held liable to the extent of the amount secured by the mortgages over their properties. This Court has held:

There is x x x no legal provision nor jurisprudence in our jurisdiction which makes a third person who secures the fulfillment of another's obligation by mortgaging his own property to be solidarity bound with the principal obligor, x x x The signatory to the principal contract - loan - remains to be primarily bound. It is only upon the default of the latter that the creditor may have recourse on the mortgagors by foreclosing the mortgaged properties in lieu of an action for the recovery of the amount of the loan. And the liability of the third-party mortgagors extends only to the property mortgaged. Should there be any deficiency, the creditor has recourse on the principal debtor.[26] (Citation omitted)

Unfortunately, the records available to the Court are insufficient to determine whether Roberto still has any outstanding liability to SMC after applying the proceeds of the foreclosure sale. In particular, the amount secured by the mortgages, as well as SMC's bid in the foreclosure sale, are not specified in the pleadings or in the attachments thereto. For this reason, the Court deems it to the best interest of the parties to give due course to SMC's cross-claim against Roberto, and consequently, to remand the case solely for the purpose of determining the amount of Roberto's outstanding liability, if any, after applying the proceeds of foreclosure to satisfy his indebtedness.

WHEREFORE, the petition is PARTLY GRANTED. The Decision dated October 10, 2017 and Resolution dated February 14, 2018 of the Court of Appeals insofar as it declared the real estate mortgages dated September 20, 2007 and July 12, 2007 and the consequent extrajudicial foreclosure sales as void, ordered petitioner San Miguel Corporation to return to respondents their owner's duplicate copies of Transfer Certificates of Title Nos. T-6347 and T-5433, and dismissed San Miguel Corporation's cross-claim against Roberto Gandionco, are REVERSED and SET ASIDE.

San Miguel Corporation's prayer for award of moral damages (in the amount of P500,000.00), exemplary damages (in the amount of P100,000.00), and attorney's fees and litigation expenses (in the amount of P600,000.00) is DENIED for lack of merit.

For the purpose of determining the exact amount of respondent Roberto Gandionco's outstanding liability to San Miguel Corporation, if there is any, the case is hereby REMANDED to the Regional Trial Court of Las Piñas City.

SO ORDERED.

Peralta, C.J. (Chairperson), Caguioa, Lazaro-Javier and Lopez, JJ., concur.

[*]Also referred to as "Leonora" in some parts of the rollo.

[*]Referred to as Gandionco in some parts of the rollo.

[**]Also referred to as Gandionco in some parts of the rollo.

[1]Rollo, pp. 11-30.

[2]Penned by Associate Justice Renato C. Francisco, with Associate Justices Sesinando E. Villon and Manuel M. Barrios, concurring; id. at 31-46.

[3]Id. at 47-48.

[4]Id. at 33.

[5]Id. at 13.

[6]Id. at 34.

[7]Id. at 40.

[8]Id. at 34.

[9]Id. at 14.

[10]Id. at 35.

[11]Id. at 36.

[12]Id.

[13]Id. at 38.

[14]Id. at 16.

[15]See CIVIL CODE, Article 2085.

[16]ART. 1878. Special powers of attorney are necessary in the following cases:

- (1) To make such payments as are not usually considered as acts of administration;
- (2) To effect novations which put an end to obligations already in existence at the time the agency was constituted;
- (3) To compromise, to submit questions to arbitration, to renounce the right to appeal from a judgment, to waive objections to the venue of an action or to abandon a prescription already acquired;
- (4) To waive any obligation gratuitously;
- (5) To enter into any contract by which the ownership of an immovable is transmitted or acquired either gratuitously or for a valuable consideration;
- (6) To make gifts, except customary ones for charity or those made to employees in the business managed by the agent;
- (7) To loan or borrow money, unless the latter act be urgent and indispensable for the preservation of the things which are under administration;
- (8) To lease any real property to another person for more than one year;
- (9) To bind the principal to render some service without compensation;
- (10) To bind the principal in a contract of partnership;
- (11) To obligate the principal as a guarantor or surety;
- (12) To create or convey real rights over immovable property;
- (13) To accept or repudiate an inheritance;
- (14) To ratify or recognize obligations contracted before the agency;
- (15) Any other act of strict dominion. (Emphasis supplied)

[17]Supra note 7.

[18]CIVIL CODE, Article 1370.

[19]Norton Resources and Development Corporation v. All Asia Bank Corporation, 620 Phil. 381, 388 (2009), citing Benguet Corporation v. Cabildo, 585 Phil. 23 (2008).

[20]Supra note 8.

[21]479 Phil. 896(2004).

[22]Id. at 914.

[23]G.R. No. 153743, March 18, 2005, 453 SCRA 812.

[24]Rollo, p. 819.

[25]Tenio-Obsequio v. Court of Appeals, G.R. No. 107967. March 1, 1994, 230 SCRA 550, 560.

[26]Land Bank of the Philippines v. Belle Corporation, 768 Phil. 368, 390 (2015), citing Cerna v. Court of Appeals, G.R. No. L-48359, March 30, 1993, 220 SCRA 517, 522-523.

CONCURRING OPINION

CAGUIOA, J.:

I agree with the ponencia.

I submit this Concurring Opinion only to expound on the significance of delivering the physical possession of the original owner's duplicate Transfer Certificates of Title (TCTs) to Roberto N. Gandionco (Roberto), purported agent of the registered owners thereof (respondents).

To reiterate the facts - petitioner San Miguel Corporation (SMC) requires its dealers to submit sufficient collateral to secure the beer stocks taken out of SMC.[1] Roberto approached respondents for help with the submission of the collateral requirement.[2] Pursuant thereto, respondents executed similarly worded Special Powers of Attorney (SPAs) authorizing respondent Roberto to "offer as collateral" TCT Nos. T-52796, T-5433, T-6347, and T-6346 in favor of SMC.[3] Respondents likewise delivered physical possession of the original owner's duplicate TCTs to Roberto on four different occasions and over the course of several years.[4] Thereafter, real estate mortgages (REMs) were executed and annotated on some of the aforementioned titles.[5] When Roberto failed to pay, SMC foreclosed on the mortgages.[6] It was only then that respondents purportedly learned that Roberto had mortgaged their properties. They informed SMC that the SPAs had been revoked and thereafter filed a complaint for annulment of mortgage and foreclosure sale.[7]

Based on the foregoing, respondents should be deemed bound by the mortgages under the doctrine of agency by estoppel.

As acutely observed by the ponencia, in addition to executing similarly worded SPAs expressly authorizing Roberto to offer specific properties as collateral and to do all things necessary in furtherance of said purpose, respondents delivered their original owner's duplicate certificates of title to Roberto.[8] Notably, no reason was proffered as to why respondents did not or could not instead provide photocopies or certified true copies of the same. Worse, respondents delivered the same on four different occasions over the course of several years.[9] During this period, it appears that respondents failed to exercise even ordinary diligence to inquire about the status or whereabouts of their owner's duplicates. This is fatal to respondents' case.

The legal significance of delivering the original owner's duplicate certificate of title must be understood in the context of its distinct and irreplaceable function in the land registration system. In *Philippine Bank of Communications v. The Register of Deeds for the Province of Benguet*,[10] the Court explained:

It is a fundamental principle in land registration that the certificate of title serves as evidence of an indefeasible

and incontrovertible title to the property in favor of the person whose name appears therein. It is conclusive evidence with respect to the ownership of the land described therein. In *The Heirs of Alfredo Cullado v. Gutierrez*, the Court explained:

Indeed, the bedrock of the Torrens system is the indefeasibility and incontrovertibility of a land title where there can be full faith reliance thereon. Verily, the Government has adopted the Torrens system due to its being the most effective measure to guarantee the integrity of land titles and to protect their indefeasibility once the claim of ownership is established and recognized. To the registered owner, the Torrens system gives him complete peace of mind, in order that he will be secured in his ownership as long as he has not voluntarily disposed of any right over the covered land. On the part of a person transacting with a registered land, like a purchaser, he can rely on the registered owner's title and he should not run the risk of being told later that his acquisition or transaction was ineffectual after all, which will not only be unfair to him, but will also erode public confidence in the system and will force land transactions to be attended by complicated and not necessarily conclusive investigations and proof of ownership, x x x

In other words, ownership of registered land is evidenced by the certificate of title, which is indefeasible and incontrovertible. Presidential Decree No. (P.D.) 1529 or the "Property Registration Decree" mandates the issuance of this certificate of title in duplicates - the original certificate of title, which is either an original certificate of title or TCT to be kept by the Register of Deeds and an owner's duplicate certificate of title to be kept by the registered owner, x x x

x x x x

x x x [T]here is no doubt that the owner's duplicate certificate of title is a fundamental aspect of the Torrens system. While a registered owner is free to exercise and enjoy all manner of rights over his/her property [i.e., (1) *Jus possidendi* or the right to possess; (2) *Jus utendi* or the right to use and enjoy; (3) *Jus fruendi* or the right to the fruits; (4) *Jus accessionis* or right to accessories; (5) *Jus abutendi* or the right to consume the thing by its use; (6) *Jus disponendi* or the right to dispose or alienate; and (7) *Jus vindicandi* or the right to vindicate or recover] and non-registration thereof does not affect the validity of said acts as between the parties, no voluntary transaction affecting the land will be registered (and thus bind third persons) without the owner's duplicate certificate of title as mandated by P.P. 1529, viz.:

CHAPTER V

SUBSEQUENT REGISTRATION

I. VOLUNTARY DEALINGS WITH REGISTERED LANDS

GENERAL PROVISIONS

SEC. 51. Conveyance and other dealings by registered owner. - An owner of registered land may convey, mortgage, lease, charge or otherwise deal with the same in accordance with existing laws. He may use such forms of deeds, mortgages, leases or other voluntary instruments as are sufficient in law. But no deed, mortgage, lease, or other voluntary instrument, except a will purporting to convey or affect registered land shall take effect as a conveyance or bind the land, but shall operate only as a contract between the parties and as evidence of authority to the Register of Deeds to make registration.

The act of registration shall be the operative act to convey or affect the land insofar as third persons are concerned, and in all cases under this Decree, the registration shall be made in the office of the Register of Deeds for the province or city where the land lies.

SEC. 52. Constructive notice upon registration. - Every conveyance, mortgage, lease, lien, attachment, order, judgment, instrument or entry affecting registered land shall, if registered, filed or entered in the office of the Register of Deeds for the province or city where the land to which it relates lies, be constructive notice to all

persons from the time of such registering, filing or entering.

SEC. 53. Presentation of owner's duplicate upon entry of new certificate. - No voluntary instrument shall be registered by the Register of Deeds, unless the owner's duplicate certificate is presented with such instrument, except in cases expressly provided for in this Decree or upon order of the court, for cause shown.

The production of the owner's duplicate certificate, whenever any voluntary instrument is presented for registration, shall be conclusive authority from the registered owner to the Register of Deeds to enter a new certificate or to make a memorandum of registration in accordance with such instrument, and the new certificate or memorandum shall be binding upon the registered owner and upon all persons claiming under him, in favor of every purchaser for value and in good faith.

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.

SEC. 54. Dealings less than ownership, how registered. - No new certificate shall be entered or issued pursuant to any instrument which does not divest the ownership or title from the owner or from the transferee of the registered owners. All interests in registered land less than ownership shall be registered by filing with the Register of Deeds the instrument which creates or transfers or claims such interests and by a brief memorandum thereof made by the Register of Deeds upon the certificate of title, and signed by him. A similar memorandum shall also be made on the owner's duplicate. The cancellation or extinguishment of such interests shall be registered in the same manner, x x x

The requirement that the owner's duplicate certificate of title be presented for voluntary transactions is precisely what gives the registered owner "security" and "peace of mind" under the Torrens System. Without the owner's duplicate certificate of title, transfers and conveyances like sales and donations, mortgages and leases, and agencies and trusts while valid, will not bind the registered land. As such, the owner's duplicate certificate of title safeguards ownership, x x x[11]

Evidently, the owner's duplicate certificate is "crucial to the full and effective exercise of ownership rights over registered land." [12] It is a fundamental aspect of the Torrens system. Presentation of the owner's duplicate certificate constitutes conclusive authority from the registered owner in favor of the Register of Deeds (RD) to enter a new certificate or to make a memorandum of registration in accordance with the accompanying voluntary instrument. [13] Conversely, non-presentation of the owner's duplicate certificate of title absolutely bars the registration of any and all voluntary transactions. [14] In other words, without the owner's duplicate, a sale or mortgage while valid, will not and cannot bind registered land.

In view of this distinctive function, registered owners are expected to exercise reasonable diligence in safeguarding the original owner's duplicate certificates of title and in ensuring that they remain in their possession or in the possession of persons they trust. Under these premises, the voluntary delivery of original owner's duplicates gains new significance.

As applied to the instant case, the presentation of (1) an express authority to offer specific properties as collateral (2) together with the original owner's duplicate certificates, would indubitably lead any reasonable person to believe that the agent indeed possesses the requisite authority to constitute the REMs and to register the same with the RD. As such, respondents should be deemed bound by the mortgages under Article 1911 of the Civil Code, viz.:

ART. 1911. Even when the agent has exceeded his authority, the principal is solidarily liable with the agent if

the former allowed the latter to act as though he had full powers, (n)[15]

The Court has held that "one who clothes another with apparent authority as his agent and holds him out to the public as such cannot be permitted to deny the authority of such person to act as his agent, to the prejudice of innocent third parties dealing with such person in good faith and in the honest belief that he is what he appears to be." [16] In an agency by estoppel, "the principal is bound by the acts of his agent with the apparent authority which he knowingly permits the agent to assume, or which he holds the agent out to the public as possessing." [17] Thus, in the early case of *Macke v. Camps*, [18] the Court held a cafe owner liable for the payment of goods received by a certain Ricardo Flores, after it was shown that the former left the latter in charge of the business and allowed him to use the title of "managing agent" during periods of prolonged absence. Similarly, the Court in *Cuison v. Court of Appeals* [19] held petitioner liable for the payment of various paper products delivered in accordance with orders made by a certain Tiu Huy Tiac, after it was shown that petitioner held the latter out to the public as the manager of his store. The Court therein explained:

By his representations, petitioner is now estopped from disclaiming liability for the transaction entered into by Tiu Huy Tiac on his behalf. It matters not whether the representations are intentional or merely negligent so long as innocent third persons relied upon such representations in good faith and for value. As held in the case of *Manila Remnant Co., Inc. v. Court of Appeals* (191 SCRA 622 [1990]):

"More in point, we find that by the principle of estoppel, Manila Remnant is deemed to have allowed its agent to act as though it had plenary powers. Article 1911 of the Civil Code provides:

'Even when the agent has exceeded his authority, the principal is solidarily liable with the agent if the former allowed the latter to act as though he had full powers.'

The above-quoted article is new. It is intended to protect the rights of innocent persons. In such a situation, both the principal and the agent may be considered as joint tortfeasors whose liability is joint and solidary.

Authority by estoppel has arisen in the instant case because by its negligence, the principal, Manila Remnant, has permitted its agent, A.U. Valencia and Co., to exercise powers not granted to it. That the principal might not have had actual knowledge of the agent's misdeed is of no moment."

Tiu Huy Tiac, therefore, by petitioner's own representations and manifestations, became an agent of petitioner by estoppel. Under the doctrine of estoppel, an admission or representation is rendered conclusive upon the person making it, and cannot be denied or disproved as against the person relying thereon (Article 1431, Civil Code of the Philippines). A party cannot be allowed to go back on his own acts and representations to the prejudice of the other party who, in good faith, relied upon them (*Philippine National Bank v. Intermediate Appellate Court, et al.*, 189 SCRA 680 [1990]).

Taken in this light, petitioner is liable for the transaction entered into by Tiu Huy Tiac on his behalf. Thus, even when the agent has exceeded his authority, the principal is solidarily liable with the agent if the former allowed the latter to act as though he had full powers (Article 1911 Civil Code), as in the case at bar.

Finally, although it may appear that Tiu Huy Tiac defrauded his principal (petitioner) in not turning over the proceeds of the transaction to the latter, such fact cannot in any way relieve nor exonerate petitioner of his liability to private respondent. For it is an equitable maxim that as between two innocent parties, the one who made it possible for the wrong to be done should be the one to bear the resulting loss (*Francisco vs. Government Service Insurance System*, 7 SCRA 577 [1963]). [20]

Even assuming therefore that Roberto's authority to mortgage the property was insufficient, respondents absolutely affirmed and confirmed said authority when they repeatedly executed the aforementioned SPAs and

successively delivered the corresponding owner's duplicate TCTs to Roberto in a span of four years.

In this regard, I find respondents' assertion that "[w]hen asked about the status of the certificates of title, Roberto would explain that the titles were still in SMC's possession which has yet to decide which title to accept as collateral"[21] to be a flimsy excuse, which cannot justify the years of neglect and inaction. Why would SMC require the original owner's duplicates if it had yet to decide which title to accept as collateral? Certainly, a photocopy or certified true copy would have served the same purpose. Why would SMC retain the original owner's duplicates if it had no intention to constitute mortgages thereon? These matters should have alerted respondents to investigate with the RD as to the status of their titles. Evidently, respondents were grossly negligent.

Indeed, an ordinary registered owner would not casually part with his or her original owner's duplicate. Certainly, an ordinary registered owner would never allow a third person to retain the same for any significant period without cause. Undoubtedly, an ordinary registered owner would inquire about the whereabouts of his or her owner's duplicates and demand its return after the lapse of a reasonable period. By delivering said owner's duplicates to Roberto and allowing SMC to retain the same, respondents repeatedly held Roberto out as their agent and clothed him with the apparent authority to continuously deal with SMC, to execute the REMs, and to register the same with the RD.

I likewise find respondents' claims that they did not specifically authorize Roberto to execute the REMs but merely agreed that the latter would bring the necessary documents for the former to sign once SMC accepted their certificates of title[22] to be nonsensical and irrelevant. Notably, Article 1900 of the Civil Code expressly states that "[s]o far as third persons are concerned, an act is deemed to have been performed within the scope of the agent's authority, if such act is within the terms of the power of attorney, as written, even if the agent has in fact exceeded the limits of his authority according to an understanding between the principal and the agent." Further, Article 1902 unequivocally holds that "x x x [p]rivate or secret orders and instructions of the principal do not prejudice third persons who have relied upon the power of attorney or instructions shown to them." Although it appears that Roberto defrauded respondents, such fact cannot relieve respondents of their liability to SMC for "it is an equitable maxim that as between two innocent parties, the one who made it possible for the wrong to be done should be the one to bear the resulting loss." [23]

In the landmark case of *Blondeau v. Nano*, [24] which involved a purportedly forged mortgage constituted through the aid of a purported agent who had possession of the original owner's duplicate TCTs, the Court upheld the validity of the mortgage and held:

But there is a narrower ground on which the defenses of the defendant-appellee must be overruled. Agustin Nano [(purported agent)] had possession of Jose Vallejo's [(registered owner/purported mortgagor)] title papers. Without those title papers handed over to Nano with the acquiescence of Vallejo, a fraud could not have been perpetuated, x x x

The Torrens system is intended for the registration of title, rather than the muniments of title. It represents a departure from the orthodox principles of property law. Under the common law, if the pretended signature of the mortgagor is a forgery, the instrument is invalid for every purpose and will pass no title or rights to anyone, unless the spurious document is ratified and accepted by the mortgagor. The Torrens Act on the contrary permits a forged transfer, when duly entered in registry, to become the root of a valid title in bona fide purchaser. The act erects a safeguard against a forged transfer being registered, by the requirement that no transfer shall be registered unless the owner's certificate was produced along with the instrument of transfer. An executed transfer of registered lands placed by the registered owner thereof in the hands of another operates as a representation to a third party that the holder of the transfer is authorized to deal with the lands. (53 C. J., 1141, 1142; Act No. 496, as amended, sees. 47, 51, 55.)

x x x x

Other incidental facts might be mentioned and other incidental legal propositions might be discussed, but in its final analysis this is a case of a mortgagee relying upon a Torrens title, and loaning money in all good faith on the basis of the title standing in the name of the mortgagors only thereafter to discover one defendant to be an alleged forger and the other defendant, if not a party to the conspiracy, at least having by his negligence or acquiescence made it possible for the fraud to transpire. Giving to the facts the most favorable interpretation for Vallejo, yet, as announced by the United States Supreme Court, the maxim is, as between two innocent persons, in this case Angela Blondeau and Jose Vallejo, one of whom must suffer the consequence of a breach of trust, the one who made it possible by his act of confidence must bear the loss, in this case Jose Vallejo. x x x[25]

In *Domingo v. Robles*,^[26] which was likewise cited by the ponencia, the Court upheld the purportedly forged sale made with the aid of an agent who had possession of the original owner's duplicate, and held:

The sale was admittedly made with the aid of Bacani, petitioner's agent, who had with him the original of the owner's duplicate Certificate of Title to the property, free from any liens or encumbrances. The signatures of Spouses Domingo, the registered owners, appear on the Deed of Absolute Sale. Petitioner's husband met with Respondent Yolanda Robles and received payment for the property. The Torrens Act requires, as a prerequisite to registration, the production of the owner's certificate of title and the instrument of conveyance. The registered owner who places in the hands of another an executed document of transfer of registered land effectively represents to a third party that the holder of such document is authorized to deal with the property.^[27]

The foregoing reasoning is applicable by analogy to the instant case. By repeatedly signing the subject SPAs and by repeatedly placing the original owner's duplicate TCTs in the hands of Roberto, respondents represented to SMC that Roberto was duly authorized to mortgage the properties. As discussed, without the owner's duplicates, the mortgages could never have been registered.^[28] Relying in good faith on this apparent authority and believing that the mortgages were validly constituted, SMC approved Roberto's dealership application and delivered beer stocks amounting to about P7,000,000.00.^[29] In view of the foregoing, respondents are estopped from denying Roberto's authority and are bound to comply with the obligations validly executed in their name.

Although respondents are likewise victims of Roberto's fraud, they cannot escape liability to SMC under the principle "that as between two innocent persons, one of whom must suffer the consequences of a breach of trust, the one who made it possible by his act of confidence must bear the loss."^[30] In any event, respondents' liability herein is without prejudice to their right to seek reimbursement and/or to recover damages from Roberto.^[31]

In conclusion, (1) the authority "to offer" the subject properties "as collateral, security or property bond with SMC," (2) with the "full power and authority" to do all that is necessary for all intents and purposes of the contract, (3) coupled with the act of physically delivering to Roberto's possession the owner's duplicate TCTs - result in any person's understanding that Roberto had the specific and express authority to mortgage the subject properties in favor of SMC. To hold otherwise, is not only to contravene clear unequivocal provisions of law, but worse, to justify a deception, and accordingly make the Court complicit to this fraud.

(Sgd.)ALFREDO BENJAMIN S. CAQUIOA

Associate Justice

[1]Ponencia, p. 2.

[2]Id.

[3]Id. at 2-3.

[4]Id.

[5]Id.

[6]Id.

[7]Id.

[8]Id. at 8.

[9]Id. at 2.

[10]G.R. No. 222958, March 11, 2020.

[11]Id. at 7-12.Citations omitted; underscoring supplied.

[12]Id. at 12.

[13]PROPERTY REGISTRATION DECREE, Presidential Decree No. (P.D.) 1529, June 11, 1978, Sec. 53.

[14]Id.

[15]Underscoring supplied.

[16]Cuison v. Court of Appeals, 298 Phil. 162, 167 (1993).

[17]AFP Retirement and Separation Benefits System v. Sanvictores, 793 Phil. 442, 452-453 (2016).

[18]7 Phil. 553, 555(1907).

[19]Supra note 16.

[20]Id. at 170-171; underscoring supplied.

[21]Ponencia, p. 3.

[22]Id.

[23]Cuison v. Court of Appeals, supra note 16 at 172.

[24]61 Phil. 625(1935).

[25]Id. at 627-632; underscoring supplied.

[26]493 Phil. 916(2005).

[27]Id. at 922; underscoring supplied.

[28]P.D. 1529, Sec. 51.

[29]Ponencia, p. 3.

[30]Tenio-Obsequio v. Court of Appeals, 300 Phil. 588, 601 (1994).

[31]CIVIL CODE, An. 1909 states:

ART. 1909. The agent is responsible not only for fraud, but also for negligence, which shall be judged with more or less rigor by the courts, according to whether the agency was or was not for a compensation.

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