

LEOCADIA ANGELO, APPLICANT, VS. THE DIRECTOR OF LANDS ET AL., CLAIMANTS AND APPELLEES; LUCIA F. DB VALLE CRUZ AND CIPRIANO PACHECO, CLAIMANTS AND APPELLANTS.

G. R. No. 25694. December 31, 1926

Ponente: OSTRAND, J.

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OSTRAND, J.:

This is an appeal from an order of the Court of First Instance of Tarlac setting aside a decree of registration entered in a land registration case.

It appears from the record that one Leocadia Angelo on July 2, 1920, made application for the registration of 659 hectares of land alleged to be situated in the barrios of Barang and Mabilang, municipality of Paniqui, Tarlac.

The case did not come up for final hearing until the 20th of September, 1923, when a decision was rendered ordering the registration of the land in favor of the applicant. Final decree was entered on July 16, 1924, and a certificate of title was issued in favor of Leocadia Angelo two days later. In the meantime Leocadia had executed a deed for the sale of the land to Cipriano Pacheco, to whom transfer certificate of title No. 786 of the registry of deeds of Tarlac was issued by virtue of the deed immediately upon the completion of the registration in favor of the vendor. Five days later, on July 23, 1924, Cipriano Pacheco executed a deed ostensibly evidencing a sale of the land to Lucia F. de Valle Cruz for P15,000 with pacto de retro for the term of five years, the transaction being noted by memorandum upon transfer certificate of title No. 786. The deed provided that Pacheco was to remain in possession of the land as a tenant paying the sum of P150 per month as rent.

On October 6, 1924, the Director of Lands filed a petition in the aforesaid land registration case for a review of the decree under section 38 of the Land Registration Act, it being alleged that the decree was obtained by fraud and that the land was occupied by several hundred adverse claimants, who through the fraud of Leocadia Angelo, did not receive any notification neither of the survey of the land nor of the registration proceedings, and that Leocadia never had possession of the land and had no title thereto prior to the registration. On the same date a large number of adverse claimants and occupants of the land also filed petitions for review similar to that of the Director of Lands, alleging substantially the same facts. Upon hearing, the Court of First Instance of Tarlac held that Leocadia Angelo had obtained the decree in question by fraud; that the sale made to Cipriano Pacheco was not made in good faith, and that the good faith of Lucia F. de Valle Cruz was doubtful. The court therefore declared the decree issued in favor of Leocadia Angelo null and void and ordered the cancellation of the transfer certificate of title issued in favor of Cipriano Pacheco. From this judgment, both Cipriano Pacheco and Lucia F. de Valle Cruz appealed.

Upon the record before us, there can be no doubt whatever that the registration of the land in question was obtained by fraud. It is true that there is no testimony showing that the land was occupied by persons other than the applicant at the time the application for registration was filed, but it is alleged in the duly verified amended petition for review presented by the Director of Lands that there were 350 persons occupying different portions of

the land and that this fact was known to the applicant, but that she nevertheless stated in said application that she was in the actual, real and peaceful possession and occupation of the land and that there were no other claimants thereto. If that allegation is true, and we must so assume in the absence of a denial, the applicant was guilty of a deliberate misrepresentation which tended to prevent the adverse claimants or occupants from receiving formal notice of the registration proceedings and from asserting their rights. That was unquestionably fraud within the meaning of section 38 of the Land Registration Act. It also appears very clearly that Pacheco had full knowledge of the situation before he received his transfer certificate of title and he can therefore not be regarded as a bona fide holder of the certificate.

But we are unable to find any evidence of bad faith on the part of the appellant Lucia F. de Valle Cruz and she must therefore be regarded as an innocent purchaser for value, a fact which creates a peculiar situation. Section 38 of the Land Registration Act reads as follows:

"If the court after hearing finds that the applicant has title as stated in his application, and proper for registration, a decree of confirmation and registration shall be entered. Every decree of registration shall bind the land, and quiet title thereto, subject only to the exceptions stated in the following section. It shall be conclusive upon and against all persons, including the Insular Government and all the branches thereof, whether mentioned by name in the application, notice, or citation, or included in the general description 'To all whom it may concern.' Such decree shall not be opened by reason of the absence, infancy, or other disability of any person affected thereby, nor by any proceeding in any court for reversing judgments or decrees; subject, however, to the right of any person deprived of land or of any estate or interest therein by decree of registration obtained by fraud to file in the Court of Land Registration a petition for review within one year after entry of the decree, provided no innocent purchaser for value has acquired an interest. If there is any such purchaser, the decree of registration shall not be opened, but shall remain in full force and effect forever, subject only to the right of appeal hereinbefore provided. But any person aggrieved by such decree in any case may pursue his remedy by action for damages against the applicant or any other person for fraud in procuring the decree. Whenever the phrase 'innocent purchaser for value' or an equivalent phrase occurs in this Act, it shall be deemed to include an 'innocent lessee, mortgagee, or other encumbrancer for value.'"

It is apparent from the document itself that the transaction evidenced by the so-called deed of sale with pacto de retro executed by Pacheco in favor of Lucia F. de Valle Cruz was in reality not a sale, but only a loan of P15,000, with interest at the rate of 12 per cent per annum and secured by an equitable mortgage upon the land. Under the last sentence of the section quoted, the mortgagee must nevertheless be regarded as an innocent purchaser for value and, at first blush, it may therefore seem that the remedy provided for in said section for the review of the decree of registration is barred. But looking to the spirit of the law rather than to the letter, we do not think the law should be so interpreted. The Land Registration Act was never designed to serve as a shield for fraud, and we do not think that the Legislature intended that a person obtaining a certificate of title by fraud should be allowed to escape the consequences of his own fraud by mortgaging the land to an innocent third party for a fraction of its value. The intent of the Torrens System of registration is to protect the innocent party and not the guilty one. Applying this principle, and bearing in mind that a mortgagee of registered land, for value and in good faith, cannot be deprived of his rights by the reopening of the decree of registration, we find no difficulty in arriving at an equitable solution of the problem before us and in doing justice to all parties.

The record shows that the occupants of the land, now petitioners for review, were negligent in failing to assert their rights in the proceedings for the registration of the land in question. It is true that they were not formally notified of the proceedings and of the hearings thereon, but the land was duly surveyed in February, 1918, and concrete monuments placed on most of the corners; the application for the registration of the land was filed on July 2, 1920, and the case was not heard until September 20, 1923. In these circumstances, we cannot believe that the petitioners for review were, during all those years, ignorant of the fact that registration had been applied for,

and the boundary lines being indicated by monuments, they must also have had fairly clear idea of the extent and location of the land which the applicant sought to register. As a matter of fact, a considerable number of the herein petitioners for review did appear at the hearing of the land registration case and presented their oppositions, which they afterwards withdrew on the ground that they had arrived at a satisfactory agreement with the applicant. It is therefore evident that they were partly to blame for the success of the applicant's fraudulent designs, which eventually resulted in the deceit practiced upon the mortgagee Lucia F. de Valle Cruz. Her lien upon the land must be respected and, in view of the facts stated, the adverse occupants are not in position to complain if we declare, as we do, that the lien will subsist until the debt secured by it is paid.

For the reasons stated, the order appealed from is modified by declaring that the appellant Lucia F. de Valle Cruz, or her successors in interest, shall have a lien upon the land described in transfer certificate No. 786 of the registry of deeds of the Province of Tarlac for the sum of P15,000, with interest at the rate of 12 per cent per annum from July 23, 1924, until paid; that if said sum with interest should not be paid within six months from the date of the notification of this decision, the lien may be foreclosed in the manner provided for in sections 254-259 of the Code of Civil Procedure, except that in the sale under such foreclosure, the portions of the land which are occupied by the herein petitioners, for review shall not be sold until the portions not so occupied have been sold and the proceeds of the sale found insufficient for the satisfaction of the lien. In all other respects, the appealed order is affirmed without costs in this instance. So ordered.

Johnson, Street, Malcolm, Villamor, and Johns, JJ., concur.

ROMUALDEZ, J., with whom concurs Villa-Real, J., dissenting :

In view of the fact that Valle Cruz is a mortgage creditor' in good faith, I believe neither the trial court nor this court has jurisdiction under section 38 of Act No. 496 to review the decree. For this reason I dissent.

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