

**PHILIPPINE NATIONAL COOPERATIVE BANK (DAGUPAN BRANCH),
PETITIONER, VS. HON. FELICIDAD CARANDANG--VILLALON,
DISTRICT JUDGE, COURT OF FIRST INSTANCE OF PANGASINAN,
BRANCH III, DAG...**

G.R. No. 55144. November 11, 1985

Ponente: MELENCIO-HERRERA, J.

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MELENCIO-HERRERA, J.:

A Petition for Review on Certiorari of the Amended Decision of the then Court of First Instance of Pangasinan (Trial Court), dismissing an action (the Case Below) for Quieting of Title instituted on March 13, 1980 by petitioner Philippine National Cooperative Bank (the Bank) against Arturo Bengzon and Dr. Vicente V. Jimenez, as ADMINISTRATORS[1] of the ESTATES of Dionisio Galvan and Carmen Cabrera. As the probate proceedings had been closed on February 21, 1980, and Arturo Bengzon had already died, the heirs of the two ESTATES were ordered impleaded as private respondents herein while the case was pending with us.[2] Only Dr. Jimenez, as an heir, out of about seventy-three (73) heirs, intervened as a private respondent.

The relevant facts may be stated as follows:

1. The PROPERTY involved in the Case Below is a parcel of land of about 296 sq. m. in Dagupan City. It used to be owned by FAUSTINO Galvan, his title thereto being TCT No. 10159. A statement has been made that FAUSTINO owned only one-third (1/3) of the PROPERTY; but the general indication is that FAUSTINO was the sole proprietor, considering that legal redemption by co-owners had never become involved.
2. On February 4, 1964, FAUSTINO donated the PROPERTY to his daughter AIDA Galvan, and TCT No. 17418 was issued in her favor.
3. FAUSTINO was a lessee of the SPOUSES Dionisio Galvan and Carmen Cabrera. On June 15, 1964, the SPOUSES had sued FAUSTINO[3] to recover unpaid rentals in Civil Case No. D-1597 of the Trial Court (the Rental Case). Decision was rendered on December 23, 1965 against FAUSTINO in the sum of P40,841.60. He did not appeal.
4. Thereafter, the SPOUSES passed away, and their ESTATES were settled in Special Proceedings No. 3459 and D-338 of the Trial Court, with Arturo Bengzon and Vicente B. Jimenez, being appointed ADMINISTRATORS, the first, for the estate of the husband and the second for the estate of the wife.[4]
5. In 1966, AIDA and her husband obtained a loan of P5,000.00 from the Bank, secured by a real estate mortgage on the PROPERTY, which mortgage was registered and duly annotated on AIDA's title on July 8, 1966.
6. Because the ADMINISTRATORS were unable to execute the judgment in the Rental Case, they filed an action before the Trial Court, docketed as Civil Case No. D-1929 (the Donation Case), against FAUSTINO and AIDA for the annulment of the donation made of the PROPERTY by FAUSTINO in favor of AIDA on the ground that the donation was made in fraud of creditors. The case was eventually dismissed by the Trial Court.

Of note is that the Bank was not impleaded in the case.

7. The ADMINISTRATORS then appealed from the Order of dismissal in the Donation Case to the Court of Appeals, which reversed the judgment, thus annulling the donation. The Decision of the Court of Appeals became final, and was inscribed on the title of the PROPERTY on August 23, 1973.

8. In 1975, the PROPERTY was levied upon in connection with the Rental Case, and sold at public auction to the ADMINISTRATORS and the Sheriff's final sale made and registered on January 14, 1977.[5]

9. (a) For failure of AIDA to pay the loan despite demands from the Bank, the latter, on August 17, 1977, filed with the Sheriff's Office an application for the extrajudicial foreclosure of the mortgage in its favor. After due notice and publication, the mortgage was extrajudicially foreclosed on September 9, 1977 and a Sheriff's Certificate of Sale of the PROPERTY was issued to the Bank as the highest bidder. That was approximately eight (8) months after the Sheriff's sale in favor of the ADMINISTRATORS, and four (4) years after the inscription on the title of the annulment of the donation in AIDA's favor.

(b) On September 16, 1977, the Bank attempted to register the Certificate of Sale with the Register of Deeds, but the latter denied registration on the ground that the mortgagor was no longer the owner of the land covered by the Title.

10. (a) On March 13, 1980, the Bank instituted the Case Below against the ADMINISTRATORS, docketed as Civil Case No. D-5078 of the Trial Court. The ADMINISTRATORS were declared in default for failing to answer despite due receipt of the Complaint. As previously mentioned, the proceedings in the ESTATES were closed on February 21, 1980. Evidence was thereafter presented by the Bank and received by the Trial Court.

(b) Judgment was rendered against the Bank in the Case Below on August 29, amended on September 15, 1980, in effect declaring the nullity of the mortgage executed by AIDA in favor of the Bank. The Trial Court opined that the annulment of the donation in AIDA's favor by the Court of Appeals retroacted to February 4, 1964, the date the donation was made, such that AIDA could no longer mortgage the PROPERTY as of July 8, 1966. Sequentially, the Bank availed of this appeal to this instance by Certiorari.

We reverse on the established principle, which need not be minutely reiterated, that where the Torrens Title of the land was in the name of the mortgagor and later given as security for a bank loan, the subsequent declaration of said title as null and void is not a ground for nullifying the mortgage rights of the Bank, which had acted in good faith. Suffice it to cite that in the relatively recent case of *Penullar vs. Philippine National Bank*, 120 SCRA 171, 179-180 (January 27, 1983), the following was said:

"Resolving a similar issue in *Blanco, et al. v. Esquierdo, et al.* (110 Phil. 495) this Court ruled:

"That the certificate of title issued in the name of Fructuosa Esquierdo (mortgagor) is a nullity, the same having been secured thru fraud, is not here in question. The only question for determination is whether the defendant bank is entitled to the protection accorded to 'innocent purchasers for value', which phrase, according to sec. 38 of the Land Registration Law, includes an innocent mortgagee for value. The question, in our opinion, must be answered in the affirmative.

"The trial court, in the decision complained of, made no finding that the defendant mortgagee bank was a party to the fraudulent transfer of the land to Fructuosa Esquierdo. Indeed, there is nothing alleged in the complaint which may implicate said defendant mortgagee in the fraud, or justify a finding that it acted in bad faith. On the other hand, the certificate of title was in the name of the mortgagor Fructuosa Esquierdo when the land was mortgaged by her to the defendant bank. Such being the case, the said defendant bank, as mortgagee, had the right to rely on what appeared in the certificate and, in the absence of anything to excite suspicion, was under no obligation to look beyond the certificate and investigate the title of the mortgagor appearing on the face of said certificate. (*De Lara, et al. vs. Ayroso*, 95 Phil. 185; 50 Off. Gaz., (10) 4838; *Joaquin vs. Madrid, et al.*, 106 Phil. 1060). Being thus an innocent mortgagee for value, its right or lien upon the land mortgaged must be

respected and protected, even if the mortgagor obtained her title thereto thru fraud. x x x'

"In the instant case, the Philippine National Bank relied on the torrens titles of the mortgagors which had been regularly issued. The torrens titles were the result of regular land registration proceedings duly registered with the Register of Deeds. There was nothing in the torrens titles which would excite suspicion that the same were fraudulently processed by the mortgagors. Applying therefore, the principles enunciated in the aforesaid cases, the respondent Bank was not duty bound to further investigate the validity and/or invalidity of the torrens title."

The claim cannot be justified that the Bank, before accepting the mortgage, should have made an investigation of the title so it could have found that the donation of the PROPERTY was invalid. Such a claim would be as unreasonable, if not more so, than to require that the SPOUSES (Dionisio Galvan and Carmen Cabrera) should have instituted the Donation Case sufficiently prior to July 8, 1966, with notice of lis pendens on AIDA's title, so as to preclude the Bank granting a loan to AIDA on the security of her mortgage of the PROPERTY.

WHEREFORE, the Decision dated August 29, 1980, and its amendment on September 15, 1980, in Civil Case No. D-5078 of the then Court of First Instance of Pangasinan are hereby set aside and the Register of Deeds of Pangasinan, or of Dagupan City, is ordered:

(a) To cancel, on Transfer Certificate of Title No. 17418 of his registry, the notice of levy annotated in connection with Civil Case No. D-1597, as well as the notice of lis pendens in connection with Civil Case No. D-1929, and

(b) To allow the registration of the extrajudicial foreclosure sale of the PROPERTY covered by said Transfer Certificate of Title No. 17418 in favor of petitioner Philippine National Cooperative Bank.

All the foregoing without prejudice to whatever action the heirs of the two spouses may wish to take in exercise of their right of redemption, within ninety (90) days from notice hereof.

No costs.

SO ORDERED.

Teehankee, (Chairman), Plana, Gutierrez, Jr., De La Fuente, and Patajo, JJ., concur.

Relova, J., on official leave.

[1] Rollo, pp. 73-74.

[2] *ibid.*, pp. 125-130.

[3] *ibid.*, p. 34.

[4] *ibid.*, p. 73.

[5] *ibid.*, p. 12.

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