

**NATIONAL GRAINS AUTHORITY, PLAINTIFF-APPELLEE, VS.
INTERMEDIATE APPELLATE COURT, MELECIO MAGCAMIT, NENA
COSICO AND EMELITA MAGCAMIT, DEFENDANTS-APPELLANTS.**

G.R. No. 68741. January 28, 1988

Ponente: PARAS, J.

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PARAS, J.:

This is a petition for review of the decision of the then Intermediate Appellate Court* (now Court of Appeals) dated January 31, 1984, reversing the decision of the Court of First Instance of Laguna and San Pablo City, 8th Judicial District, Branch III, and of the resolution dated August 28, 1984 denying the motion for reconsideration filed thereof.

The undisputed facts of this case as found by the trial Court and the Intermediate Appellate Court are as follows:

On December 2, 1971, the spouses Paulino Vivas and Engracia Lizardo, as owners of a parcel of land situated in Bo. San Francisco, Victoria, Laguna, comprising more or less 105,710 square meters, sold for P30,000.00 said property in favor of spouses Melencio Magcamit and Nena Cosico, and Amelita Magcamit (herein private respondents) as evidenced by "Kasulatan Ng Bilihang Mabi-biling Muli". This sale with right to repurchase was recorded in the Office of the Register of Deeds of Laguna on December 6, 1971 under Act No. 3344. On January 31, 1972 the sale was made absolute by the spouses Vivas and Lizardo in favor of the private respondents for the sum of P90,000.00; P50,000.00 of which was paid upon the execution of the instrument, entitled "Kasulatan Ng Bilihan Tuluyan", after being credited with the P30,000.00 consideration of the "Kasulatan Ng Mabibiling Muli", and the balance of P40,000.00 was to be paid the moment that the certificate of title, is issued. From the execution of said Kasulatan, private respondent have remained in peaceful, adverse and open possession of subject property.

On February 26, 1975, an Original Certificate of Title No. T-1728 covering the property in question was issued to and in the name of the spouses Vivas and Lizardo without the knowledge of the private respondents and on April 30, 1975, said Spouses executed a Special Power of Attorney in favor of Irene Ramirez authorizing the latter to mortgage the property with the petitioner, National Grains Authority.

On May 2, 1974, the counsel for the petitioner wrote the Provincial Sheriff in Sta. Cruz, Laguna, requesting for the extra-judicial foreclosure of the mortgage executed by Irene Ramirez on May 18, 1975, covering, among others, the property involved in this case covered by OCT No. T-1728, for unpaid indebtedness in the amount of P63,948.80 in favor of the petitioner.

On May 31, 1974, the Provincial Sheriff caused the issuance of the notice of sale of the property in question, scheduling the public auction sale on June 28, 1974. The petitioner was the highest and successful bidder so that a Certificate of Sale was issued in its favor on the same date by the Provincial Sheriff.

On July 10, 1974, the petitioner in its capacity as attorney-in-fact of the mortgagor sold the subject real property

in favor of itself. By virtue of the deed of absolute sale, TCT No. T-75171 of the Register of Deeds for the Province of Laguna was issued in the name of the petitioner on July 16, 1974. It was only in July 1974, that private respondents learned that a title in the name of the Vivas spouses had been issued covering the property in question and that the same property had been mortgaged in favor of the petitioner. Private respondent Nena Magcamit offered to pay the petitioner NGA the amount of P40,000.00 which is the balance of the amount due the Vivas spouses under the terms of the absolute deed of sale but the petitioner refused to accept the payment. On July 31, 1974, counsel for private respondents made a formal demand on the spouses Vivas and Lizardo to comply with their obligation under the terms of the absolute deed of sale; and soon after reiterated to the NGA, the offer to pay the balance of P40,000.00 due under the absolute deed of sale. On August 13, 1974 petitioner in its reply informed counsel of private respondents that petitioner is now the owner of the property in question and has no intention of disposing of the same.

The private respondents, who as previously stated, are in possession of subject property were asked by petitioner to vacate it but the former refused. Petitioner filed a suit for ejectment against private respondents in the Municipal Court of Victoria, Laguna, but the case was dismissed.

On June 4, 1975, private respondents filed a complaint before the then Court of First Instance of Laguna and San Pablo City, Branch III, San Pablo City, against the petitioner and the spouses Vivas and Lizardo, praying, among others, that they be declared the owners of the property in question and entitled to continue in possession of the same, and if the petitioner is declared the owner of the said property, then, to order it to reconvey or transfer the ownership to them under such terms and conditions as the court may find just, fair and equitable under the premises. (Record on Appeal, pp. 2-11).

In its answer to the complaint, the petitioner (defendant therein) maintained that it was never a privy to any transaction between the private respondents (plaintiffs therein) and the spouses Paulino Vivas and Engracia Lizardo; that it is a purchases in good faith and for value of the property formerly covered by OCT No. 1728; and that the title is now indefeasible, hence, private respondents' cause of action has already prescribed. (Record on Appeal, pp. 16-22).

After due hearing, the trial court* rendered its decision on March 17, 1981, in favor of the petitioner, the dispositive portion of said judgment reading as follows:

"WHEREFORE, judgment is hereby rendered as follows:

"(1) declaring defendant National Grains Authority the lawful owner of the property in question by virtue of its indefeasible title to the same;

"(2) ordering plaintiffs to turn over possession of the land to defendant National Grains Authority;

"(3) ordering defendants-spouses Paulino Vivas and Engracia Lizardo to pay plaintiffs the sum of P56,000.00 representing the amount paid pursuant to the Kasulatan Ng Bilihang Tuluyan marked Exhibit '3', with legal interest thereon from January 31, 1972 until the amount is paid, to pay an additional amount of P5,000.00 for and as attorney's fees, an additional amount of P10,000.00 as moral damages, another amount of P5,000.00 by way of exemplary damages and to pay the costs of this suit." (Rollo, p. 35).

The private respondents interposed an appeal from the decision of the trial court to the Intermediate Appellate Court.

After proper proceedings, the appellate court rendered its decision on January 31, 1984, reversing and setting aside the decision of the trial court as follows:

"WHEREFORE, the decision of the lower court is hereby reversed and set aside and another one is rendered

ordering the Nation-al Grains Authority to execute a deed of reconveyance sufficient in law for purposes of registration and cancellation of Transfer Certificate of Title No. T-75171 and the issuance of another title in the names of plaintiffs-appellants, and ordering defendants-appellees Paulino Vivas and Engracia Lizardo to pay the National Grains Authority the sum of P78,375.00 (Exh. 3) within thirty (30) days from the receipt of the writ of execution. No damages and costs." (Rollo, p. 19).

The petitioner filed a motion for reconsideration of the said decision but the same was denied. (Rollo, p. 26).

Hence, this petition.

In the resolution of May 20, 1985, the petition was given due course and the parties were required to submit simultaneous memoranda (Rollo, p. 128). The memorandum for the petitioner was filed on July 3, 1985 (Rollo, p. 129) while the memorandum for the private respondents was filed on August 26, 1985 (Rollo, p. 192).

The main issue in this case is whether or not violation of the terms of the agreement between the spouses Vivas and Lizardo, the sellers, and private respondents, the buyers, to deliver the certificate of title to the latter, upon its issuance, constitutes a breach of trust sufficient to defeat the title and right acquired by petitioner NGA, an innocent purchaser for value.

It is undisputed that: (1) there are two deeds of sale of the same land in favor of private respondents, namely: (a) the conditional sale with right to repurchase or the "Kasulatan Ng Bilihang Mabibiling Muli" which was registered under Act 3344 and (b) the deed of absolute sale or "Kasulatan ng Bilihang Tuluyan" which was not registered; (2) the condition that the Certificate of Title will be delivered to the buyers upon its issuance and upon payment of the balance of P40,000.00 is contained in the deed of absolute sale; and (3) the land in question at the time of the execution of both sales was not yet covered by the Torrens System of registration.

It is axiomatic, that while the registration of the conditional sale with right of repurchase may be binding on third persons, it is by provision of law "understood to be without prejudice to third party who has better right" (Section 194 of the Administrative Code, as amended by Act No. 3344). In this case, it will be noted that the third party NGA, is a registered owner under the Torrens System and has obviously a better right than private respondents and that the deed of absolute sale with the suspensive condition is not registered and is necessarily binding only on the spouses Vivas and Lizardo and private respondents.

In their complaint at the Regional Trial Court, private respondents prayed among others, for two alternative reliefs, such as: (a) to be declared the owners of the property in question or (b) to order the declared owner to reconvey or transfer the ownership of the property in their favor.

Private respondents claim a better right to the property in question by virtue of the Conditional Sale, later changed to a deed of Absolute Sale which although unregistered under the Torrens System allegedly transferred to them the ownership and the possession of the property in question. In fact, they argue that they have been and are still in possession of the same openly, continuously, publicly under a claim of ownership adverse to all other claims since the purchase on December 2, 1971 (Rollo, p. 165). It is stressed that not until the month of July, 1974 did the plaintiff learn that a title had been issued covering the property in question (Rollo, p. 15).

Time and time again, this Court has ruled that the proceedings for the registration of title to land under the Torrens System is an action in rem, not in personam, hence, personal notice to all claimants of the res is not necessary in order that the court may have jurisdiction to deal with and dispose of the res. Neither may lack of such personal notice vitiate or invalidate the decree or title issued in a registration proceeding, for the State, as sovereign over the land situated within it, may provide for the adjudication of title in a proceeding in rem or one in the nature of or akin a proceeding in rem which shall be binding upon all persons, known or unknown

(Moscoso vs. Court of Appeals, 128 SCRA 719 [1984], citing: City of Manila vs. Lack, et al., 19 Phil. 324, 337; Roxas vs. Enriquez, 29 Phil. 31; Director of Lands vs. Roman Catholic Archbishop of Manila, 41 Phil. 120; Aguilar vs. Caogdan, 105 Phil. 661). It is thus evident that respondents' right over the property was barred by res judicata when the decree of registration was issued to spouses Vivas and Lizardo. It does not matter that they may have had some right even the right of owner-ship, BEFORE the grant of the Torrens Title.

Thus, under Section 44 of P.D. 1529, every registered owner receiving a certificate of title in pursuance of a decree of registration, and every subsequent purchaser of registered land taking a certificate of title for value and in good faith, shall hold the same free from all encumbrances except those noted on the certificate and any of the encumbrances which may be subsisting, and enumerated in the law. Under said provision, claims and liens of whatever character, except those mentioned by law as existing, against the land prior to the issuance of certificate of title, are cut off by such certificate if not noted thereon, and the certificate so issue binds the whole world, including the government (Aldecoa and Co. vs. Warner Barns & Co., 30 Phil. 209 [1915]; Snyder vs. Fiscal of Cebu and Avila, 42 Phil. 766 [1922]). Under said ruling, if the purchaser is the only party who appears in the deeds and the registration of titles in the property registry, no one except such purchaser may be deemed by law to be the owner of the properties in question (Ibid). Moreover, no title to registered land in derogation to that of the registered owner shall be acquired by prescription or adverse possession (Umbay vs. Alecha, 135 SCRA 427 [1985]).

It does not appear that private respondents' claim falls under any of the exceptions provided for under Section 44 of P.D. 1529 which can be enforced against petitioner herein.

Thus, it has been invariably restated by this Court, that "The real purpose of the Torrens System is to quiet title to land and to stop forever any question as to its legality. 'Once a title is registered, the owner may rest secure, without the necessity of waiting in the portals of the court, or sitting on the 'mirador su casa', to avoid the possibility of losing his land'." An indirect or collateral attack on a Torrens Title is not allowed (Dominga vs. Santos, 55 Phil. 361; Singian vs. Manila Railroad, 62 Phil. 467).

The only exception to this rule is where a person obtains a certificate of title to a land belonging to another and he has full knowledge of the rights of the true owner. He is then considered as guilty of fraud and he may be compelled to transfer the land to the defrauded owner so long as the property has not passed to the hands of an innocent purchaser for value (Angeles vs. Samia, 66 Phil. 444 [1938], underscoring supplied).

It will be noted that the spouses Vivas and Lizardo never committed any fraud in procuring the registration of the property in question. On the contrary, their application for registration which resulted in the issuance of OCT No. 1728 was with the complete knowledge and implied authority of private respondents who retained a portion of the consideration until the issuance to said spouses of a certificate of title applied for under the Torrens Act and the corresponding delivery of said title to them. The question therefore, is not about the validity of OCT No. 1728 but in the breach of contract between private respondents and the Vivas spouses. Petitioner NGA was never a privy to this transaction. Neither was it shown that it had any knowledge at the time of the execution of the mortgage, of the existence of the suspensive condition in the deed of absolute sale, much less of its violation. Nothing appeared to excite suspicion. The Special Power of Attorney was regular on its face; the OCT was in the name of the mortgagor and the NGA was the highest bidder in the public auction. Unquestionably, therefore, the NGA is an innocent purchaser for value, first as an innocent mortgages under Section 32 of P.D. 1529 and later as innocent purchaser for value in the public auction sale.

Private respondents claim that NGA did not even field any representative to the land which was not even in the possession of the supposed mortgagors, nor present any witness to prove its allegations in the ANSWER nor

submit its DEED OF MORTGAGE to show its being a mortgagee in good faith and for value (Rollo, p. 110).

Such contention is, however, untenable. Well settled is the rule that all persons dealing with property covered by a torrens certificate of title are not required to go beyond what appears on the face of the title. When there is nothing on the certificate of title to indicate any cloud or vice in the ownership of the property, or any encumbrance thereon, the purchaser is not required to explore further than what the torrens title upon its face indicates in quest for any hidden defect or inchoate right that may subsequently defeat his right thereto (*Centeno vs. Court of Appeals*, 139 SCRA 545 [1985]).

More specifically, the Court has ruled that a bank is not required before accepting a mortgage to make an investigation of the title of the property being given as security (*Phil. National Cooperative Bank vs. Carandang-Villalon*, 139 SCRA 570 [1985]), and where innocent third persons like mortgagees relying on the certificate of title acquire rights over the property, their rights cannot be disregarded (*Duran vs. IAC*, 138 SCRA 489 [1985]).

Under the circumstances, the Regional Trial Court could not have erred in ruling that plaintiffs' (private respondents herein) complaint insofar as it prays that they be declared owners of the land in question can not prosper in view of the doctrine of indefeasibility of title under the Torrens System, because it is an established principle that a petition for review of the decree of registration will not prosper even if filed within one year from the entry of the decree if the title has passed into the hands of an innocent purchaser for value (Pres. Decree No. 1529, Sec. 32). The setting aside of the decree of registration issued in land registration proceedings is operative only between the parties to the fraud and the parties defrauded and their privies, but not against acquirers in good faith and for value and the successors in interest of the latter; as to them the decree shall remain in full force and effect forever (*Domingo vs. The Mayon Realty Corp. et al.*, 102 Phil. 32 [1957]). Assuming, therefore, that there was fraud committed by the sellers against the buyers in the instant case, petitioner NGA who was not privy therein cannot be made to suffer the consequences thereof. As correctly declared by the trial court, the National Grains Authority is the lawful owner of the property in question by virtue of its indefeasible title.

As to private respondents' alternative prayer that the declared owner be ordered to reconvey or transfer the ownership of the property in their favor, it is clear that there is absolutely no reason why petitioner, an innocent purchaser for value, should reconvey the land to the private respondents.

PREMISES CONSIDERED, the decision of the Court of Appeals is REVERSED and SET ASIDE, and the decision of the Court of First Instance of Laguna and San Pablo City, now Regional Trial Court, is REINSTATED.

SO ORDERED.

Teehankee, C.J., Narvasa, Cruz, and Gancayco, JJ., concur.

* IAC, 4th Civil Cases Division, penned by Justice Porfirio V. Sison, with the concurrence of Justices Abdulwahid A. Bidin, Marcelino R. Veloso and Desiderio P. Jurado.

* Presided by Judge Conrado T. Limcaoco.

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