

SPOUSES CELEDONIO MANZANILLA AND DOLORES FUERTE, AND INES CARPIO, PETITIONERS, VS. HON. COURT OF APPEALS AND JUSTINA CAMPO, RESPONDENTS.

G.R. NO. 75342. March 15, 1990

Ponente: MEDIALDEA, J.

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MEDIALDEA, J.:

This is a petition for review on certiorari of the decision (pp. 111-118, Rollo) of the Intermediate Appellate Court, now Court of Appeals, in AC-G.R. CV No. 00925 entitled "Justina Campo, Plaintiff-Appellee, versus Sps. Celedonio Manzanilla and Dolores Fuerte, and Ines Carpio, Defendants-Appellants", which affirmed the decision (pp. 55-56, Rollo) of the Court of First Instance of Rizal, Branch IX, Quezon City, now Regional Trial Court of Quezon City, in Civil Case No. Q-28061.

The facts of the case are not disputed.

In 1963, spouses Celedonio and Dolores Manzanilla (spouses Manzanilla) sold on installment an undivided one-half portion of their residential house and lot covered by TCT No. 59223 and located at No. 12, Casiana St., Santol, Quezon City. At the time of the sale, the said property was mortgaged to the Government Service Insurance System (GSIS), which fact was known to the vendees, spouses Magdaleno and Justina Campo. The Campo spouses took possession of the premises upon payment of the first installment on April 17, 1963 and up to the present. Some payments (Exhibits "A" to "A-1") were made to petitioners while some were made directly to GSIS (Exhibits "A-10" to "A-29").

On May 17, 1965, the GSIS filed its application to foreclose the mortgage on the property for failure of the Manzanilla spouses to pay their monthly amortizations.

On October 11, 1965, the property was sold at public auction where GSIS was the highest bidder.

Two months before the expiration of the period to redeem or on August 31, 1966, the Manzanilla spouses executed a Deed of Absolute Sale (Exhibit "D") of the undivided one half portion of their property in favor of the Campo spouses.

Upon the expiration of the period to redeem without the Manzanilla spouses exercising their right of redemption, title to the property was consolidated in favor of the GSIS and a new title (TCT No. 135031) issued in its name.

In January 1969, the Manzanilla spouses made representations and succeeded in re-acquiring the property from the GSIS. Upon full payment of the purchase price, an Absolute Deed of Sale was executed by GSIS in favor of the Manzanilla spouses. Upon registration thereof on March 19, 1973, a new certificate of title (TCT No.-188293) in the name of the Manzanilla spouses was issued by the Register of Deeds of Quezon City.

On May 14, 1973, the Manzanilla spouses mortgaged the property to the Biñan Rural Bank. On September 7, 1973, petitioner Ines Carpio purchased the property from the Manzanilla spouses and agreed to assume the

mortgage in favor of Biñan Rural Bank.

On November 12, 1973, private respondent Justina Campo registered her adverse claim over TCT No. 188293 with the Register of Deeds of Quezon City.

On October 3, 1977, petitioner Ines Carpio filed an ejectment case against private respondent Justina Campo in Civil Case No. 31350, with the City Court of Quezon City.

On July 31, 1979, private respondent Justina Campo (already a widow) filed a complaint (pp. 26-30, Rollo) for quieting of title against the Manzanilla spouses and Ines Carpio with the Court of First Instance of Rizal, Branch IX, Quezon City, now the Regional Trial Court of Quezon City and docketed as Civil Case No. Q-28061, praying among others, for the issuance to her of a certificate of title over the undivided one-half portion of the property in question. Civil Case No. Q-28061 is the subject of this appeal.

After trial, a decision promulgated on September 30, 1982 was rendered in favor of the herein private respondent, Justina Campo. The dispositive portion of the decision reads:

"WHEREFORE, premises considered, judgment is rendered in favor of the plaintiff Justina C. Campo and the defendants and/or all persons claiming rights under them are ordered to desist from exercising rights or ownerships over the half-portion of the plaintiff. The mortgage of the property to the Biñan Rural Bank is hereby cancelled in so far as the half-portion is concerned and accordingly, the sale to defendant Ines Carpio regarding the half portion of the plaintiff is hereby considered null and void. The defendants, spouses Celedonio and Dolores Manzanilla are ordered to surrender their owner's duplicate copy of TCT No. 188293 to the Register of Deeds of Quezon City for its cancellation in order that a new certificate of title could be issued in favor of the plaintiff Justina C. Campo with regards to her half-portion and to execute such document as is necessary to effect said transfer.

"SO ORDERED." (p. 56, Rollo)

The decision was appealed by petitioners, spouses Manzanilla and Ines Carpio, to the Intermediate Appellate Court, now Court of Appeals, which affirmed the said decision of the trial court. Petitioners' Motion For Reconsideration filed with the Court of Appeals was denied on July 16, 1986. Hence, this petition for review under Rule 45 of the Rules of Court on the following issues:

"1. WHETHER OR NOT A BUYER OF ONE-HALF PORTION OF A MORTGAGED PROPERTY WITH FULL KNOWLEDGE OF SAID MORTGAGE, MAY DEMAND RECONVEYANCE FROM THE SELLER/MORTGAGOR WHO WAS ABLE TO BUY SAID PROPERTY FROM THE MORTGAGEE AFTER IT WAS LEGALLY FORECLOSED AND OWNERSHIP DULY CONSOLIDATED IN THE NAME OF THE MORTGAGEE, UNDER THE DOCTRINE OF IMPLIED TRUST.

"2. WHETHER OR NOT A PURCHASER OF REAL PROPERTY IS BOUND TO GO BEYOND THE TITLE THEREOF IN DETERMINING THE REAL STATUS OF SAID PROPERTY TO BE CONSIDERED A BUYER IN GOOD FAITH.

"3. WHETHER OR NOT PRIVATE RESPONDENT IS GUILTY OF LACHES"

(p. 12, Rollo).

The main issue to be resolved in this case is whether, under the facts stated, petitioners Manzanillas are under any legal duty to reconvey the undivided one-half portion of the property to private respondent Justina Campo.

It is petitioners' contention that a buyer of one-half portion of a mortgaged property who, at the time of the sale had full knowledge of the existence of the mortgage, has no legal right to demand reconveyance from the

seller/mortgagor who was able to buy said property from the mortgagee after it was legally foreclosed and ownership duly consolidated in the name of the latter.

Private respondent, on the other hand contends that petitioners committed fraud upon them (Campo spouses) by deliberately allowing the loan to lapse, the mortgage to be foreclosed and the subsequent re-acquisition of the same after the expiration of the period of redemption without exercising their right of redemption. Upon the re-acquisition by the Manzanillas of the whole property from GSIS, they are considered trustees of an implied trust in favor of private respondent Campo.

Both the court a quo and respondent appellate court share the view of private respondent. Both courts believe that petitioners exercised fraud upon the Campo spouses when they bought back the whole property believing that as the GSIS acquired absolute ownership and title to the property private respondent can no longer be entitled to the same.

The petition is impressed with merit.

There is no sufficient basis for the trial court to conclude that herein petitioners acted in bad faith in their dealings with the Campo spouses. The latter had full knowledge of the existing mortgage of the whole property in favor of GSIS prior to the sale of the one-half portion to them. There is also no showing that as one of the considerations of the sale, herein petitioners undertook to release the property from the mortgage at all costs. With this condition of the property at the time of the sale, private respondents were forewarned of the consequences of their transaction with the petitioners.

There is also no basis to conclude that petitioners deliberately allowed the loan to lapse and the mortgage to be foreclosed. No specific act or series of acts were presented and proven from which it could be safely concluded that the failure of petitioners to pay off their loan was deliberate. They explained that their financial condition prevented them from dutifully complying with their obligations to the GSIS. In a display of their good faith and fair dealing after the property was foreclosed, the petitioners, realizing the imminent loss of the said property, even granted the private respondent the right to redeem it from the GSIS. This right was granted in the Deed of Absolute Sale executed by petitioners in favor of the Campo spouses. Moreover, it was also stipulated that private respondent recognized the superior lien of GSIS on the property and agreed to be bound by the terms and conditions of the mortgage. These stipulations were all contained in the Deed, as follows:

"x x x the VENDORS do hereby covenant and agree with the VENDEES that they are lawfully seized in fee of said premises and that they have a perfect right to convey the same and that they will warrant and forever defend the same unto the said vendees, their heirs and assigns against the lawful claim of all persons whomsoever, subject to the mortgage lien in favor of the Government Service Insurance System aforementioned.

"That the VENDEES recognize the superior lien of the Government Service Insurance System (GSIS) and agree to be bound by the terms and conditions thereof, x x x.

"That the VENDORS likewise agree that in the event the mortgagee, Government Service Insurance System should foreclose the mortgage on the said property, the herein VENDEES, Spouses Magdaleno Campo and Justina Cabuag, their heirs or assigns, shall have the right to redeem or otherwise deal with the Government Service Insurance System (GSIS) in connection with this property. Vendees agree that vendors may repurchase the property within the time provided by law." (pp. 74-75, Rollo)

In view of the failure of either the Manzanilla spouses or the Campo spouses to redeem the property from GSIS, title to the property was consolidated in the name of GSIS. The new title cancelled the old title in the name of the Manzanilla spouses. GSIS at this point had a clean title free from any lien in favor of any person including that of

the Campo spouses.

If it were true that petitioners deliberately allowed the loan to lapse and the mortgage to be foreclosed, We do not see how these circumstances can be utilized by them to their advantage. There was no guarantee that petitioners would be able to redeem the property in the event the mortgage thereon was foreclosed as in fact they failed to redeem because they had no money. On the other hand, had they opted to eventually exercise their right of redemption after foreclosure, they would be under a legal duty to convey one-half portion thereof sold to the Campos spouses because by then, title to the property would still be in their name. Either way, petitioners were bound to lose either the entire property in case of failure to redeem or the one-half portion thereof sold to private respondent in the case of redemption. Further, should petitioners let the period of redemption lapse without exercising the right of redemption, as what happened in this case, there was no guarantee that the same could be re-acquired by them from GSIS nor would GSIS be under any legal duty to resell the property to them.

There may be a moral duty on the part of petitioners to convey the one-half portion of the property previously sold to private respondents. However, they are under no legal obligation to do so. Hence, the action to quiet title filed by private respondent must fail.

"Justice is done according to law. As a rule, equity follows the law. There may be a moral obligation, often regarded as an equitable consideration (meaning compassion), but if there is no enforceable legal duty, the action must fail although the disadvantaged party deserves commiseration or sympathy.

"The choice between what is legally just and what is morally just, when these two options do not coincide, is explained by Justice Moreland in *Vales vs. Villa*, 35 Phil. 769, 788 where he said:

'Courts operate not because one person has been defeated or overcome by another, but because he has been defeated or overcome illegally. Men may do foolish things, make ridiculous contracts, use miserable judgment, and lose money by them - indeed, all they have in the world; but not for that alone can the law intervene and restore. There must be in addition, a violation of law, the commission of what the law knows as an actionable wrong before the courts are authorized to lay hold of the situation and remedy it.'" (*Rural Bank of Parañaque, Inc. vs. Remolado*, 62051, March 18, 1985) (135 SCRA 409, 412)

In the questioned decision, respondent appellate court ruled that an implied trust exists in favor of private respondents. We do not agree. Article 1456 of the New Civil Code on implied trust has no application in the case at bar. Article 1456 provides:

"ART. 1456. If property is acquired through mistake or fraud, the person obtaining it is, by force of law, considered a trustee of an implied trust for the benefit of the person from whom the property comes."

There was no mistake nor fraud on the part of petitioners when the subject property was re-acquired from the GSIS. The fact that they previously sold one-half portion thereof has no more significance in this re-acquisition. Private respondent's right over the one-half portion was obliterated when absolute ownership and title passed on to the GSIS after the foreclosure sale. The property as held by GSIS had a clean title. The property that was passed on to petitioners retained that quality of title.

As regards the rights of private respondent Ines Carpio, she is a buyer in good faith and for value. There was no showing that at the time of the sale to her of the subject property, she knew of any lien on the property except the mortgage in favor of the Biñan Rural Bank. No other lien was annotated on the certificate of title. She is also not required by law 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 encumbrances 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 thereof (*NGA v. IAC*, G.R. No. 68741, January 28, 1988).

ACCORDINGLY, the petition is GRANTED. The appealed decision of the Court of Appeals is hereby REVERSED. Civil Case No. Q-28061 for quieting of title is hereby DISMISSED.

SO ORDERED.

Narvasa, (Chairman), Gancayco, and Grino-Aquino, JJ., concur.
Cruz, J., see dissent.

DISSENTING OPINION

CRUZ, J.:

I regret I cannot give my concurrence to the well-argued ponencia of Mr. Justice Medialdea because, for all its seemingly flawless logic, there is something in the conclusion reached that does not sit well with my own sense of justice. In *Alonzo v. Intermediate Appellate Court*, 150 SCRA 261, I had occasion to ponder a similar problem when I thought aloud for the Court:

The question is sometimes asked, in serious inquiry or in curious conjecture, whether we are a court of law or a court of justice. Do we apply the law even if it is unjust or do we administer justice even against the law? Thus queried, we do not equivocate. The answer is that we do neither because we are a court both of law and of justice. We apply the law with justice for that is our mission and purpose in the scheme of our Republic.

In the case at bar, I am not quite convinced that the Campo spouses agreed to assume the mortgage debt (as otherwise the deed of sale should have said so) or that they understood they were supposed to do so as this has not been clearly shown (in which case the ambiguity should be resolved against the one who caused it). The rights (and duties) of the parties are really uncertain, if not rather baffling. Thus, the petitioners "even granted the private respondent the right to redeem the property from the GSIS," as the ponencia notes on p. 6, even as the Deed of Absolute Sale also stipulated, somewhat inconsistently, that the "Vendees agree that the Vendors may repurchase the property within the time provided by law." It is possible that the Vendees believed it was the Vendors who were supposed to discharge the mortgage debt, more so since the widow Campo was allowed to remain on the property by the Manzanillas even after they had repurchased it from the GSIS.

The law may really support the Manzanillas and Carpio if it is strictly interpreted. But as Justice Holmes observed, "Courts are apt to err by sticking too closely to the words of a law where these words import a policy that goes beyond them." I fear we may be missing the lesson of this thought by not applying the law, as I think we must, not with rigor but with justice.

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