

RURAL BANK OF SARIAYA, INC., PETITIONER, VS. BENJAMIN YACON, MAXIMA BAUTISTA, HONORIO BAUTISTA, ISABEL ALVAREZ, PAULINO BAUTISTA, CONSUELO YACON, AND COURT OF APPEALS, RESPONDENTS.

G.R. No. 78011. July 05, 1989

Ponente: REGALADO, J.

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REGALADO, J.:

This case originated from the then Court of First Instance of Quezon, Branch III in Lucena City, where respondents herein filed a complaint for the cancellation of Transfer Certificate of Title No. T-142490 of the Register of Deeds of Quezon and for the declaration of the nullity of the following documents: (1) Special Power of Attorney, dated October 30, 1976, recorded as Doc. No. 105, Page No. 22, Book No. XXIII, Series of 1976, of the Notarial Register of Notary Public Godofredo B. Bañez; (2) Deed of Absolute Sale, dated November 17, 1976, notarized as Doc. No. 176, Page No. 37, Book No. XXIII, Series of 1976, of the same notary public; and (3) Deed of Real Estate Mortgage executed by one Luis Parco on December 13, 1976 in favor of petitioner Rural Bank of Sariaya, Inc., identified as Doc. No. 1559, Page No. 100, Book No. XII, Series of 1976, of Notary Public Angelito Arana.

Named as defendants therein were Luis B. Parco, Florentino B. Alcantara, Aniano Tantuco, Efren Rocha, Gregorio Cordero, Godofredo Bañez and petitioner Rural Bank of Sariaya, Inc.[1]

The factual background, which was established and became the basis of the decision appealed from, is succinctly stated by respondent Court of Appeals, as follows:

"The plaintiffs alleged in their complaint that they are the registered owners and possessors of the land in question, containing an area of 11.8717 hectares more or less. Sometime in October 1976, plaintiffs entrusted their owner's copy of their TCT No. T-38632 covering the land in question to their nephew, defendant Florentino Alcantara, whom they approached for the purpose of obtaining a bigger loan from a bank in Manila with the land as collateral. Alcantara promised he can work for it. After a few days, Alcantara returned to plaintiffs' house and he brought with him plaintiffs to the house of one Gregorio Cordero who lives in Candelaria, Quezon, wherein Alcantara introduced to plaintiffs Aniano Tantuco, Efren Rocha and Cordero who told plaintiffs that they have prepared the latter's application for a real estate mortgage. These people convinced plaintiffs to sign said papers as a requirement for securing a loan from the Bank in Manila.

"Without understanding the contents thereof as plaintiffs do not understand English, the language in which the documents were written and having trust and confidence in their nephew, Alcantara, plaintiffs signed the prepared documents in their belief that they were indeed applications for a loan. The defendants assured plaintiffs that they would be notified as soon as the loan would be ready for release.

"Plaintiffs never heard from defendants until in April 1977, plaintiffs discovered that their Transfer Certificate of Title No. T-38632 had been cancelled and in lieu thereof Transfer Certificate of Title No. T-142490 had been issued in favor of defendant Luis Parco. Plaintiffs also found that the papers they were made to sign in

Cordero's house included a Special Power of Attorney in favor of Alcantara with authority to 'negotiate, to mortgage and to sell' the property.

"Defendant Parco was able to transfer the title covering the land in his name and he was able to mortgage the land in favors of the defendant Rural Bank of Sariaya, Inc., for a loan of P24,500.00.

"Plaintiff (sic) never received the proceeds of the sale neither did they ever intend to sell the property. Plaintiffs never authorized Alcantara to sell the land and plaintiffs had always been in possession of the land to the present. Plaintiffs filed this instant action for annulment of documents and damages against all defendants.

"Defendant Luis Parco filed his answer admitting that he bought the land from Alcantara and mortgaged it with the Rural Bank of Sariaya Inc., for a loan of P24,500.00 but denied the rest of the material allegations of the complaint. He set up the affirmative defense of being a buyer in good faith.

"Defendant Sariaya, Inc., alleged it acted in good faith in granting the loan of P24,500.00 in favor of defendant Parco and it had no knowledge about the truth of the averments in the complaint.

"All other defendants denied the material averments of the complaint and prayed for dismissal of the complaint against them.

"Defendant Florentino Alcantara admitted the averments in the complaint alleging he himself was deceived into signing the documents in question. He stated never executed a deed of sale covering the property in favor of defendant Parco and he never went to Manila to execute and acknowledge the same before any Notary Public. He never received from defendant Parco any consideration for the sale. Defendant Alcantara likewise prayed for the declaration of nullity of documents in question."[2]

On December 17, 1982, the court a quo[3] rendered judgment nullifying the special power of attorney and deed of real estate mortgage hereinbefore mentioned and cancelling Transfer Certificate of Title No. T-142490 and restoring the validity and legal effect of Transfer Certificate of Title No. T-38632. The defendants, except Godofredo Bañez, were ordered to pay jointly and severally the plaintiffs forty thousand pesos (P40,000.00) as actual and moral damages, twenty thousand pesos (P20,000.00) as litigation expenses, and ten thousand pesos (P10,000.00) as attorney's fees.[4]

Petitioner bank and its co-defendant Luis Parco seasonably appealed to the then Intermediate Appellate Court, but said appeal resulted in the affirmance of the decision of the trial court.[5] Petitioner bank's motion for reconsideration was denied on March 27, 1987, hence this petition.

The rule applicable to this controversy, with the exception thereto, is well settled. Where the certificate of title is in the name of the mortgagor when the land is mortgaged, the innocent mortgagee for value has the right to rely on what appears on the certificate of title. In the absence of anything to excite or arouse suspicion, said mortgagee is under no obligation to look beyond the certificate and investigate the title of the mortgagor appearing on the face of said certificate. Although Article 2085 of the Civil Code provides that absolute ownership of the mortgaged property by the mortgagor is essential, the subsequent declaration of a title as null and void is not a ground for nullifying the mortgage right of a mortgagee in good faith.[6]

The rationale for this rule is stated thus:

"The main purpose of the Torrens System is to avoid possible conflicts of title to real estate and to facilitate transactions relative thereto by giving the public the right to rely upon the face of a Torrens certificate of title and to dispense with the need of inquiring further, except when the party concerned had actual knowledge of facts and circumstances that should impel a reasonably cautious man to make such further inquiry (*Pascua v. Capuyoc*, 77 SCRA 78). Thus, where innocent third persons relying on the correctness of the certificate thus issued, acquire rights over the property, the court cannot disregard such rights (*Director of Land v. Abache*, et

al., 73 Phil 606). The lien of the petitioner, an innocent mortgagee for value, must be respected and protected (Blanco v. Esquierdo, 110 Phil. 494)."[7]

The applicability of the foregoing rule in the case at bar is not being questioned here. Neither is there a dispute as to the right of respondents to have the title of defendant Parco cancelled. What is in controversy is petitioner's insistence that it is a mortgagee in good faith for value. Consequently, it submits that the circumstances of this case do not justify the imposition on it of the duty to look beyond Parco's title.

Petitioner correspondingly dissects and takes exception to the following circumstances which the appellate court took into account in ruling against it, viz:

- "a. When the Respondents-plaintiffs still had the torrens title in their names, Petitioner bank was willing to lend them P5,000.00 only; when defendant applied he was granted a P24,500 loan for the same land;
- b. Petitioner bank did not inquire into the persons in possession of the same;
- c. Respondents had used the same land as collateral in an earlier loan applied for by them;
- d. Respondents have lived in Sariaya for a long time, while defendant Parco is a new client of the bank;
- e. Petitioner bank could have inquired from the respondents about the fact that the sale of the land was through the alleged attorney in fact Alcantara and not from the plaintiffs themselves directly."

There is no ground to reject or deviate from the findings of both the trial court and the Court of Appeals. In cases heretofore decided by this Court, We took judicial notice of the common practice of banks, before approving a loan, to send a representative to the premises of the land offered as collateral and duly investigate who are the true owners thereof. Failure to do so was considered as constitutive of negligence on the part of the banks. This is in keeping with the banks' responsibility to exercise care and prudence in dealing even with registered land, more than in the case of private individuals. The banks' business is "affected with public interest, keeping in trust money belonging to their depositors, which they should guard against loss by not committing any act of negligence which amount to lack of good faith by which they would be denied the protective mantle of the land registration statute, Act No. 496 (now Presidential Decree No. 1529), extended only to purchasers for value and in good faith, as well as to mortgagees of the same character and description." [9]

The finding that the petitioner bank failed to make adequate inquiries with the person in possession of the land has adequate evidentiary support. The testimony of the bank inspector, Ricardo Aro, Jr., that he went to the land together with an assistant inspector does not bespeak the diligent verification required in the circumstances. As earlier stated, the prudent practice is to investigate who are the true owners of the properties sought to be mortgaged. What appears to have been done in the present case is that petitioner merely went through the motions of sending a representative to the premises. When the inspector found nobody on the land on the date of inspection, he only counted the coconut trees, without bothering to look for the person in possession of the same. [10] He further testified that he did not bother to find out who was in actual possession of the property when he went to the premises, relying on the fact that the vice-president of the bank had already talked to Luis Parco. [11] Petitioner is, therefore, not in a position to assail the finding that Luis Parco never took possession of the land in question and that the respondents continuously and openly possessed the land without any disturbance. [12]

On the other circumstances which merited the appellate court's conclusion that petitioner acted with negligence amounting to bad faith, We agree that, considered in conjunction with one another and the facts of record, petitioner's present stance is far from tenable. One further consideration is the haste on the part of Luis Parco in applying for a loan, a circumstance which could not have escaped the attention of the bank's personnel. As found

by the court below, the loan application was filed on December 11, 1976, three days after the cancellation of respondents' Transfer Certificate of Title No. T-38632 on December 8, 1976.[13] This hurried application for a loan is matched by petitioner bank's dispatch in approving the same two days thereafter on December 13, 1976.[14] One can only view with puzzlement and suspicion this concordance of events, especially since Parco was a new client of the bank living in a town distant from Sariaya.

There being an exiguity of countervailing evidence, We see no reason for disturbing the findings of the Court of Appeals confirmatory of those of the trial court, which findings are consequently entitled to respect.

ACCORDINGLY, the appealed judgment is hereby AFFIRMED.

SO ORDERED.

Melencio-Herrera, (Chairman), Paras, Padilla, and Sarmiento, JJ., concur.

* The former Intermediate Appellate Court, now the Court of Appeals, is deemed impleaded and is included in the caption of this case as the public respondent.

[1] Rollo, 31-38.

[2] Ibid., 91-93.

[3] Presided over by Judge Milagros V. Caguioa.

[4] Rollo, 85-86.

[5] Tenth Division; Justice Jose C. Campos, Jr., ponente, Justices Reynato S. Puno and Venancio D. Aldecoa, Jr., concurring.

[6] Penullar vs. Philippine National Bank, 120 SCRA 171 (1983); Duran, et al., vs. Intermediate Appellate Court, et al., 138 SCRA 489 (1985); Philippine National Cooperative Bank, vs. Carrandang-Villalon, etc., et al., 139 SCRA 570 (1985); Philippine National Bank, vs. Court of Appeals, et al., 153 SCRA 435 (1987); Gonzales vs. Intermediate Appellate Court, 157 SCRA 587 (1988).

[7] St. Dominic Corporation vs. Intermediate Appellate Court, et al., 151 SCRA 577, 586-587 (1987).

[8] Petition, 10; Rollo, 11.

[9] Gaotian, vs. Gaffud 27 SCRA 706, 714-715 (1969); Tomas, et al., vs. Tomas, et al., 98 SCRA 280, 286 (1980); Gonzales vs. Intermediate Appellate Court, et al., 157 SCRA 587, 596 (1988).

[10] Rollo, 19-21.

[11] TSN, March 25, 1981, 23.

[12] Rollo, 81,95.

[13] Ibid., 80-81.

[14] Rollo, 81.

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