

SUNSHINE FINANCE AND INVESTMENT CORPORATION, PETITIONER, VS. THE INTERMEDIATE APPELLATE COURT AND RODOLFO RUBIDIZO AND ALFREDO DE GUZMAN, RESPONDENTS.

G.R. Nos. 74070-71. October 28, 1991

Ponente: CRUZ, J.

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CRUZ, J.:

The petitioner claims the rights of an innocent purchaser for value of registered land and asks for the reversal of the decision of the respondent court denying it such status.

The subject of the dispute is a parcel of land with a total area of 222 square meters and covered by OCT No. 114 in the name of Benito Vega. Vega sold the property to the spouses Romeo Nolasco and Erlinda de Belen, to whom TCT No. 22198 was issued on March 26, 1980. On February 13, 1981, they mortgaged the land to Sunshine Finance and Investment Corporation to secure a loan of P52,466.34. The loan not having been paid, the mortgage was foreclosed and the land sold to Sunshine as the highest bidder at the auction sale. The certificate of sale was annotated on the Nolasco certificate of title. On May 26, 1982, after the mortgagors had failed to exercise their right of redemption, TCT No. 37772 was issued in the name of Sunshine. Sunshine then filed with the Regional Trial Court of Rizal, in LRC Case No. R-3205, a petition for a writ of possession. After hearing, the writ was granted on June 20, 1983.

The conflict arose when on August 23, 1983, Rodolfo Rubidizo and Alfredo de Guzman filed in the same case a third party claim to 112 square meters of the subject land which they alleged they had purchased from the Nolasco spouses on May 18, 1979, for P19,960.00. They made the same claim in a separate complaint filed with the same court, in Civil Case No. 50179, for recovery of ownership of the said portion of land and annulment of the sheriff's sale and certificate of title with respect thereto.

The two cases were consolidated and joint hearings were held where the complainants explained that they could not have the sale in their favor registered immediately because the land was still in the name of Benito Vega at that time. Sunshine, for its part, denied any knowledge of the claimed transaction and submitted that it was an innocent mortgagee and later purchaser for value and was entitled to the ownership and possession of the disputed land.

On September 21, 1984, the trial court[1] issued an omnibus order reading as follows:

In view of the foregoing, the Court dismisses the complaint in Civil Case No. 50179, for failure of the plaintiffs to establish a cause of action against the defendants. Without pronouncement as to costs.

In L.R.C. No. R-3205, the Court reconsider and sets aside the Order dated October 13, 1983, denies the third-party claim, and orders the enforcement of the writ of possession against third party claimants Rodolfo Rubidizo and Alfredo de Guzman, who are ordered to remove their houses and/or improvements in the parcel of land covered by TCT No. 37772 subject of the aforesaid writ of possession within sixty (60) days from receipt of this Order.

SO ORDERED.

The order was based on the following justification:

A person dealing with registered land is not required to go beyond the register to determine the condition of the property. He is only charged with notice of the burdens on the property which are noted on the face of the register or the certificate of title. To require him to do more is to defeat one of the primary objects of the Torrens System. A bona fide purchaser for value of such property at an auction sale acquires good title as against a prior transferee of the same property where such transfer was unrecorded at the time of the auction sale. (*Castillo vs. Sian, et al.*, L-11291, April 30, 1959; 105 Phil. 622, 632).

On appeal, however, the order was reversed by the then Intermediate Appellate Court.[2] Its decision dated March 18, 1986, applied the exception to the above-quoted rationale, citing the following jurisprudence:

It has been held that where, as in this case, the land sold is in the possession of a person other than the vendor, the purchaser is required to go beyond the certificate of title and make inquiries concerning the rights of the actual possessors. Failure to do so would make him a purchaser in bad faith. (*Macala vs. Mendoza*, CA-G.R. NO. 13677-R, Nov. 9, 1965; *De Jesus vs. Revilla*, CA-G.R. No. 13562-R, Oct. 5, 1965)

One who purchases real property which is in the actual possession of another should at least make some inquiry concerning the right of those in possession. The actual possession by other than the vendor should at least put the purchaser upon inquiry. He can scarcely, in the absence of such inquiry, be regarded as a bona fide purchaser as against such possessor. (*Conspecto vs. Fruto*, 31 Phil. 144)

As the respondent court observed:

It is not also seriously controverted that plaintiffs have immediately occupied the property from the time of their purchase in May, 1979, building their own house thereon. The commencement of LRC Case No. R-3205 to secure the issuance of a writ of possession is a clear admission of the corporation's failure to take over the property after the foreclosure proceedings.

Although it alleged by way of defense that it is a mortgagee and purchaser in good faith and for value, it did not adduce evidence that it had sent representatives to the land in question to ascertain the identity of the land and the lack of adverse claimants or possessors (*Gatioan vs. Gaffud*, 27 SCRA 714), which was incumbent upon a mortgagee-pleader of good faith to do and establish (*Tomas vs. Tomas*, 98 SCRA 285).

It thus disposed as follows:

WHEREFORE, the decision appealed from is hereby reversed and another one is rendered: (1) dismissing LRC Case No. R-3205, (2) declaring plaintiffs Alfredo de Guzman, married to Gloria Geronimo, and Rodolfo Rubidizo, married to Lourdes Geronimo, the pro-indiviso owners in equal shares of an area of 112 square meters of that portion of 222 square meters of land covered by TCT No. 22198 and now by TCT No. 37772 in the name of defendant Sunshine Finance & Investment Corporation; and (3) ordering the Register of Deeds of Pasig, Metro Manila, to register and annotate upon final judgment this decision on TCT No. 37772 upon payment of the required fees therefor by plaintiffs-appellants. No damages and costs.

In the case now before us, the petitioner insists that it had a right to rely solely on the certificate of title and was under no obligation to go beyond it to look for encumbrances. It submits that the two cases cited by the respondent court, to wit, *Gatioan v. Gaffud*[3] and *Tomas v. Tomas*,[4] are not applicable because these involved spurious or fake certificates of title, unlike the present dispute, where only one perfectly valid certificate of title was involved. It also rejects *Macala v. Mendoza*[5] because "while there was an obligation on the part of the vendee to go behind the title because of actual possession at the time of the sale by somebody other than the vendee, no such possession was in existence at the time of the mortgage in this case." [6]

A study of the record shows that the petitioner has not adduced evidence to support this contention. By contrast, private respondents De Guzman testified that immediately upon their purchase of the disputed lot in 1979, they built their house thereon,[7] from which averment it may be presumed that they remained in possession of the lot at the time it was mortgaged to Sunshine in 1981. Sunshine never offered any evidence to refute this testimony. Neither has it shown that it made an ocular inspection of the subject land before it was mortgaged, to ascertain whether there were adverse claimants occupying it.

The finding of the respondent court was that the private respondents were actually in possession of the property at the time. A similar conclusion may be derived from the omnibus order of the trial court granting the writ of possession sought by the petitioner and ordering the third party claimants "to remove their houses and/or improvements" in the disputed lot. These factual determinations are binding on this Court, there being no showing that they were reached arbitrarily.

It is true that the factual antecedents of Gatioan and Tomas are different from the case at bar, but this does not preclude application here of the doctrine announced in those cases.

The Court does not intend to disregard the long line of its decisions holding that "where innocent third persons, relying on the correctness of the certificate of title thus issued, acquire rights over the property, the court cannot disregard such rights and order the total cancellation of the certificate." [8] It is true that "the effect of such cancellation would be to impair public confidence in the certificate of title, for everyone dealing with property registered under the Torrens system would have to inquire in every instance as to whether the title has been regularly or irregularly issued. This is contrary to the evident purpose of Act 496, Sec. 39, as "innocent purchasers for value" or any equivalent phrase shall be deemed under Section 38 of that law to include an innocent lessee, mortgagee or other encumbrances for value. A mortgagee has the right to rely on what appears in the certificate title, and in the absence of anything to excite suspicion, is under no obligation to look beyond the certificate and investigate the title of the mortgagor appearing on the face of the certificate. [9]

Nevertheless, we have to deviate from the general rule because of the failure of the petitioner in this case to take the necessary precautions to ascertain if there was any flaw in the title of the Nolascos and to examine the condition of the property they sought to mortgage. The petitioner is an investment and financing corporation. We presume it is experienced in its business. Ascertainment of the status and condition of properties offered to it as security for the loans it extends must be a standard and indispensable part of its operations. Surely, it cannot simply rely on an examination of a Torrens certificate to determine what the subject property looks like as its condition is not apparent in the document. The land might be in a depressed area. There might be squatters on it. It might be easily inundated. It might be an interior lot, without convenient access. These and other similar factors determine the value of the property and so should be of practical concern to the petitioner.

Curiously, the petitioner merely relied on the certificate of title to persuade it that the security offered was acceptable. It would have been so simple for it to send one of its trained investigators to make an ocular inspection of the land which, after all, was not in some remote or forbidding wilderness. In fact, the lot is situated in the Municipality of Pasig, a few kilometers away from the petitioner's offices at Shaw Boulevard in Mandaluyong, [10] also in Metro Manila. In this context, the petitioner was negligent. It must bear the consequences of that negligence.

Our conclusion might have been different if the mortgagee were an ordinary individual or company without the expertise of the petitioner in the mortgage and sale of registered land or if the land mortgaged were some distance from the mortgagee and could not be conveniently inspected. But there were no such impediments in this case. The facilities of the petitioner were not so limited as to prevent it from making a more careful examination of the

land to assure itself that there were no unauthorized persons in possession.

It is argued that it was the private respondents who were lacking in diligence for not having immediately registered their sale and securing their own certificate of title. As already observed, however, they could not do so immediately because the land was still covered by the certificate of title in the name of Benito Vega, from whom the Nolascos had bought the property. Moreover, it must be borne in mind that the private respondents are ordinary and practically unlettered persons not familiar with the rules on land registration like the petitioner. Assuming that both parties were negligent, the Court feels that more responsibility should attach to the petitioner. Its superior knowledgeability in the matter should have moved it to take more precautions in the protection of its rights as purchaser of the foreclosed property. Tricycle drivers like De Guzman cannot be expected to be as vigilant.

Our ruling then, given the particular circumstances of this case, is that the private respondents should not be made to suffer for the failure of the petitioner to first verify the status and actual condition of the subject land before accepting it as a security for the mortgage loan and buying it later at the foreclosure sale. The petitioner must bear its own loss. What it might do now is go after the Nolascos, against whom a criminal charge for estafa has been filed at the instance of the private respondents - another indication, incidentally, of their anxiety to protect their interest, as meager as it might appear to others. It is for the petitioner now to exert its own efforts, if it is so minded, for the apprehension of the errant couple, who have disappeared after causing all this trouble and are now fugitives from justice.

WHEREFORE, the decision of the respondent court dated March 18, 1968, is AFFIRMED in toto and the petition is DENIED, with costs against the petitioner. It is so ordered.

Narvasa, (Chairman), Griño-Aquino, and Medialdea, JJ., concur.

[1] Presided by Judge Celso L. Magsino; Original Records, p. 1.

[2] Penned by Justice Sison, P., J., Bidin, Veloso, Britanico & Bellosillo, JJ., concurring.

[3] 27 SCRA 706.

[4] 98 SCRA 706.

[5] CA-G.R. No. 13677-R, November 9, 1965.

[6] Memorandum for Petitioner, p. 10.

[7] TSN, April 26, 1984, pp. 7 & 10.

[8] Blanco v. DBP, 58 O.G. 18, p. 2889; Duran v. IAC, 138 SCRA 489; Penullar v. PNB, 120 SCRA 171; Campillo v. CA, 129 SCRA 519; PNB v. CA, 187 SCRA 735.

[9] De Lara, et al. v. Ayroso, 95 Phil. 185; 50 O.G. (10) 4838; Joaquin v. Madrid, et al., 106 Phil. 1060 cited in Blanco, et al. v. Esquiedo, et al., 110 Phil. 2195; Penullar v. PNB, 120 SCRA 171; Phil. National Cooperative Bank v. Carandang-Villalon, 139 SCRA 570; Gonzales v. IAC, 157 SCRA 595.

[10] Rollo, p. 6.

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