

THIRD DIVISION

[G.R. No. 185757, March 02, 2016]

SPOUSES VIRGILIO DE GUZMAN, JR. [SUBSTITUTED BY HIS WIFE, LYDIA S. DE GUZMAN, AND CHILDREN, NAMELY, RUEL S. DE GUZMAN, ET AL. AND LYDIA S. DE GUZMAN, PETITIONERS, VS. COURT OF APPEALS, MINDANAO STATION, LAMBERTO BAJAO, HEIR OF SPOUSES LEONCIO* BAJAO AND ANASTACIA Z. BAJAO, RESPONDENTS.

D E C I S I O N

JARDELEZA, J.:

This is a Petition for Review on *Certiorari*^[1] filed by Spouses Virgilio de Guzman, Jr.^[2] and Lydia S. de Guzman (petitioners) assailing the *Decision*^[3] and *Resolution*^[4] dated August 27, 2008 and November 19, 2008, respectively, of the Court of Appeals (CA), Mindanao Station, in CA-G.R. CV No. 00194-MIN. The CA reversed and set aside the *Decision*^[5] of the Regional Trial Court (trial court), Branch 42, Misamis Oriental, dated October 22, 2004 which granted the action for reconveyance and damages in favor of petitioners.

The Facts

The property subject of this case (property) is a 480-square meter lot that formed part of Lot No. 532 located at North Poblacion, Medina, Misamis Oriental. Lot No. 532, which has a total area of 25,178 square meters, was acquired by Lamberto Bajao's (respondent) parent, Leoncio Bajao,^[6] through Free Patent No. 400087^[7] issued on May 28, 1968.^[8]

Petitioners acquired the property in two transactions. On May 24, 1969, Spouses Bajao sold 200 square meters of Lot No. 532 to them for P1,000.^[9] On June 18, 1970, Spouses Bajao sold another 280 square meters of Lot No. 532 to petitioners for P1,400.^[10] Both transactions were evidenced by separate Deeds of Absolute Sale.^[11] Spouses Bajao allegedly promised to segregate the property from the remaining area of Lot No. 532^[12] and to deliver a separate title to petitioners covering it.^[13] However, because the promise was not forthcoming, petitioner Lydia S. de Guzman executed an Affidavit of Adverse Claim^[14] on April 21, 1980 covering the property. This was annotated on the title covering Lot No. 532, Original Certificate of Title (OCT) No. P-6903, on April 25, 1980.^[15]

On May 29, 1980, petitioners initiated the segregation of the property from Lot No. 532 through a survey.^[16] As a result of the survey, petitioners acquired Lot 2-A, Psd-10-002692.^[17] They allegedly acquired possession over the land immediately,

fenced the area, introduced improvements, and planted it with fruit-bearing trees.
[18]

On September 26, 1980,^[19] or after the death of Leoncio Bajao on February 1, 1972,^[20] respondent and Anastacia Bajao executed an Extrajudicial Settlement Among Heirs^[21] (Extrajudicial Settlement), which subdivided Lot No. 532 into three parts.^[22] The property was included in Lot No. 532-C, which was adjudicated in favor of respondent.^[23] The Extrajudicial Settlement was registered on December 10, 1980.^[24]

On December 16, 1980, respondent caused the cancellation of petitioners' annotated adverse claim over the property and later obtained Transfer Certificate of Title (TCT) No. T-7133 on February 13 and October 2, 1981.^[25] Petitioners thereafter requested respondent to deliver TCT No. T-7133 so they could present it to the Register of Deeds, together with the two Deeds of Absolute Sale, for proper annotation.^[26] Respondent, however, refused to heed their request.^[27]

Thus, on January 21, 2000, petitioners filed a Complaint for Reconveyance with Writ of Preliminary Mandatory Injunction and Damages.^[28] They alleged that they were innocent purchasers for value who took possession of the property after the sale and religiously paid its real property taxes.^[29] Petitioners also alleged that respondent was in bad faith since he knew about the sale of the property between them and his parents, and the existing survey and segregation over the area, yet he fraudulently included the same in his share upon the issuance of TCT No. T-7133.^[30]

In his Answer with Defenses and Counterclaims,^[31] respondent argued that the action is time barred and there is no more trust to speak of.^[32] He pointed out that more than 10 years have lapsed from the date of the registration of the Extrajudicial Settlement on December 10, 1980 and the registration of TCT No. T-7133 on February and October 1981, to the date of filing of the Complaint.^[33] Respondent also countered that there was no mistake or fraud in including the property in TCT No. T-7133 since his rights arose from the Extrajudicial Settlement.^[34]

Ruling of the Trial Court

On October 22, 2004, the trial court promulgated its *Decision*,^[35] the decretal portion of which reads:

WHEREFORE, all the foregoing premises considered, by preponderance of evidence, this Court finds for the plaintiffs and hereby orders the defendant:

1. to reconvey to the plaintiffs the four hundred eighty square meter lot in question in accordance with the survey plan made by Engr. Pedro Q. Gonzales which was approved by Acting Director of Lands Guillermo C. Ferraris as certified by the Office of the Regional Executive Director of the Department of Environment and Natural Resources and to surrender TCT No. 7133 to the Register of Deeds of Misamis Oriental for appropriate annotation;

2. to pay to plaintiffs the sum of Twenty Five Thousand Pesos (P25,000.00) as moral damages; and
3. to pay the costs.

SO ORDERED.^[36]

The trial court found the two Deeds of Absolute Sale free from infirmities.^[37] It ruled that their execution was equivalent to the delivery of the thing sold;^[38] registration not being necessary to make the contract of sale valid and effective as between the parties.^[39] Citing *Sanchez, et al. v. De la Cruz, et al.*,^[40] and *Philippine Suburban Development Corporation v. Auditor General*,^[41] the trial court held that as between the parties and their privies, an unrecorded deed of sale covering land registered under the Torrens system passes title of ownership once the land is conveyed to the vendee. Failure of registration does not, at anytime after the sale, vitiate or annul the right of ownership conferred to such sale.^[42]

The trial court also found respondent in bad faith.^[43] Respondent admitted that he was aware of the adverse claim annotated at the back of the title when he went to the Register of Deeds to register the Extrajudicial Settlement.^[44] The ultimate paragraph of the Extrajudicial Settlement provides that what was being conveyed to respondent was the "remaining portion of Lot [No.] 532, Cad-347, under O.C.T. Bo, P-6903." The trial court construed this provision to mean the remaining portion of Lot No. 532 after taking into consideration the 480-square meter lot sold to petitioners.^[45]

Respondent appealed to the CA.^[46] In his appellant's brief,^[47] he argued that: (1) petitioners' Complaint is already barred by the statute of limitations, estoppel and laches;^[48] (2) the "remaining portion" in the Extrajudicial Settlement refers to Lot No. 532-C with an area of 10,178 square meters;^[49] and (3) the petitioners are not entitled to moral damages.^[50]

Ruling of the Court of Appeals

The CA granted the appeal of respondent. The decretal portion of its *Decision*^[51] reads:

WHEREFORE, the appeal is hereby **GRANTED**. The Decision appealed from is **REVERSED AND SET ASIDE** and as a consequence, the Complaint for Reconveyance with Preliminary Mandatory Injunction and Damages is dismissed.

SO ORDERED.^[52]

The CA noted that an implied trust between the parties under Article 1456^[53] of the Civil Code was created at the time Anastacia Bajao and respondent executed the Extrajudicial Settlement on September 26, 1980, with respondent becoming the trustee who holds the property in trust for the benefit of petitioners.^[54] The CA held

that an action for reconveyance based on an implied trust prescribes in 10 years from the registration of title in the Office of the Register of Deeds.^[55] Thus, petitioners' action for reconveyance filed in January 2000 has already prescribed since more than 10 years have lapsed from October 1981, the date of registration of respondent's title.^[56]

Further, the CA held that petitioners failed to prove their actual possession of the property by substantial evidence.^[57] It was only in the 1980s that they fenced the area in a furtive attempt to establish possession.^[58] The CA held them guilty of laches for failing to assert their right to be placed in control and possession of the property after its sale in 1969 and 1970 and to have it registered.^[59]

Finally, the CA held that the phrase "remaining portion of **Lot No. 532, Cad-347** under OCT No. P-6903" found in the Extrajudicial Settlement could also mean restricting respondent's share to the whole portion of Lot No. 532-C, which is the remaining portion of Lot No. 532 after subdividing it into three parcels and giving Lot Nos. 532-A and 532-B to Anastacia Bajao as her share.^[60]

Petitioners filed a Motion for Reconsideration^[61] of the *Decision*. They insisted that prescription and laches do not apply because respondent was in bad faith.^[62] They maintained to be in possession of the property.^[63] Thus, their action for reconveyance partakes of a suit to quiet title which is imprescriptible.^[64] The CA in its *Resolution*^[65] dated November 19, 2008 denied the Motion for Reconsideration.

Hence, this petition, which essentially raises the issue of whether the CA erred in dismissing the Complaint on the ground of prescription.

The Court's Ruling

We deny the petition for lack of merit.

It is undisputed that Leoncio Bajao obtained Lot No. 532 through Free Patent No. 400087^[66] granted and issued on May 28, 1968. Free Patent No. 400087 was used as basis in the issuance of OCT No. P-6903 which was transcribed in the Registration Book of the Register of Deeds of Misamis Oriental on August 4, 1970.^[67] Section 118^[68] of Commonwealth Act No. 141, otherwise known as the Public Land Act, prohibits the alienation or encumbrance of lands acquired under free patent or homestead within a period of five years from the date of issuance of the patent.^[69] The parties, however, never raised this issue on prohibition, but this failure will not deter us from resolving the issue. We have held that:

We cannot turn a blind eye on glaring misapplications of the law or patently erroneous decisions or resolutions simply because the parties failed to raise these errors before the court. Otherwise, we will be allowing injustice by reason of the mistakes of the parties' counsel and condoning reckless and negligent acts of lawyers to the prejudice of the litigants. Failure to rule on these issues amounts to an abdication of our duty to dispense justice to all parties.^[70]

We have explained the rationale behind this prohibition in *Republic of the Philippines v. Court of Appeals*:^[71]

The prohibition against the encumbrance—lease and mortgage included—of a homestead which, by analogy applies to a free patent, is mandated by the rationale for the grant, *viz.*:

"It is well-known that the homestead laws were designed to distribute disposable agricultural lots of the State to land-destitute citizens for their home and cultivation. Pursuant to such benevolent intention the State prohibits the sale or encumbrance of the homestead (Section 116) within five years after the grant of the patent. After that five-year period the law impliedly permits alienation of the homestead; but in line with **the primordial purpose to favor the homesteader and his family** the statute provides that such alienation or conveyance (Section 117) shall be subject to the right of repurchase by the homesteader, his widow or heirs within five years. This Section 117 is undoubtedly a complement of Section 116. **It aims to preserve and keep in the family of the homesteader that portion of public land which the State had gratuitously given to him.** It would, therefore, be in keeping with this fundamental idea to hold, as we hold, that the right to repurchase exists not only when the original homesteader makes the conveyance, but also when it is made by his widow or heirs. This construction is clearly deducible from the terms of the statute."^[72]

Under Section 124 of the Public Land Act, any acquisition, conveyance, alienation, transfer, or other contract made or executed in violation of Sections 118 to 123 of the Public Land Act shall be unlawful and null and void from its execution. The violation shall also produce the effect of annulling and cancelling the grant, title, patent or permit originally issued, recognized or confirmed actually or presumptively. The violation shall also cause the reversion of the property and its improvements to the State. The contract executed in violation of these sections being void, it is not susceptible of ratification, and the action for the declaration of the absolute nullity of such a contract is imprescriptible.^[73]

In this case, portions of Lot No. 532 were conveyed to petitioners by virtue of two Deeds of Absolute Sale executed on May 24, 1969 and June 18, 1970, or after the grant and issuance of Free Patent No. 400087^[74] on May 28, 1968. Both Deeds of Absolute Sale were executed within the prohibited period of five years. Consequently, following Section 124, these Deeds are null and void and produce no effect. They did not convey any right from Spouses Bajao to petitioners on the property. The parties could not have claimed ignorance of the free patent grant. We held in *Beniga v. Bugas*:^[75]

Section 118 does not exempt patentees and their purported transferees who had no knowledge of the issuance of the patent from the prohibition against alienation; for the law does not say that the five years are to be counted "from knowledge or notice of issuance" of the patent or grant. The date of the issuance of the patent is documented and is a matter of