

SECOND DIVISION

[G.R. No. 189477, February 26, 2014]

**HOMEOWNERS SAVINGS AND LOAN BANK, PETITIONER-
APPELLANT, VS. ASUNCION P. FELONIA AND LYDIA C. DE
GUZMAN, REPRESENTED BY MARIBEL FRIAS, RESPONDENTS-
APPELLEES.**

**MARIE MICHELLE P. DELGADO, REGISTER OF DEEDS OF LAS
PIÑAS CITY AND RHANDOLFO B. AMANSEC, IN HIS CAPACITY AS
CLERK OF COURT EX-OFFICIO SHERIFF, OFFICE OF THE CLERK
OF COURT, LAS PIÑAS CITY, RESPONDENTS-DEFENDANTS.**

D E C I S I O N

PEREZ, J.:

Assailed in this Petition for Review on *Certiorari* is the Decision^[1] and Resolution^[2] of the Court of Appeals (CA), in CA-G.R. CV No. 87540, which affirmed with modifications, the Decision^[3] of the Regional Trial Court (RTC), reinstating the title of respondents Asuncion Felonia (Felonia) and Lydia de Guzman (De Guzman) and cancelling the title of Marie Michelle Delgado (Delgado).

The facts as culled from the records are as follows:

Felonia and De Guzman were the registered owners of a parcel of land consisting of 532 square meters with a five-bedroom house, covered by Transfer of Certificate of Title (TCT) No. T-402 issued by the register of deeds of Las Piñas City.

Sometime in June 1990, Felonia and De Guzman mortgaged the property to Delgado to secure the loan in the amount of P1,655,000.00. However, instead of a real estate mortgage, the parties executed a Deed of Absolute Sale with an Option to Repurchase.^[4]

On 20 December 1991, Felonia and De Guzman filed an action for Reformation of Contract (Reformation case), docketed as Civil Case No. 91-59654, before the RTC of Manila. On the findings that it is "very apparent that the transaction had between the parties is one of a mortgage and not a deed of sale with right to repurchase,"^[5] the RTC, on 21 March 1995 rendered a judgment favorable to Felonia and De Guzman. Thus:

WHEREFORE, judgment is hereby rendered directing the [Felonia and De Guzman] and the [Delgado] to execute a deed of mortgage over the property in question taking into account the payments made and the imposition of the legal interests on the principal loan.

On the other hand, the counterclaim is hereby dismissed for lack of

merit.

No pronouncements as to attorney's fees and damages in both instances as the parties must bear their respective expenses incident to this suit.^[6]

Aggrieved, Delgado elevated the case to the CA where it was docketed as CA-G.R. CV No. 49317. The CA affirmed the trial court decision. On 16 October 2000, the CA decision became final and executory.^[7]

In spite of the pendency of the Reformation case in which she was the defendant, Delgado filed a "Petition for Consolidation of Ownership of Property Sold with an Option to Repurchase and Issuance of a New Certificate of Title" (Consolidation case) in the RTC of Las Piñas, on 20 June 1994.^[8] After an ex-parte hearing, the RTC ordered the issuance of a new title under Delgado's name, thus:

WHEREFORE, judgment is rendered-

1. Declaring [DELGADO] as absolute owner of the subject parcel of land covered by Transfer Certificate of Title No. T-402 of the Register of Deeds of Las Piñas, Metro Manila;
2. Ordering the Register of Deeds of Las Piñas, Metro Manila to cancel Transfer Certificate of Title No. T-402 and issue in lieu thereof a new certificate of title and owner's duplicate copy thereof in the name of [DELGADO].^[9]

By virtue of the RTC decision, Delgado transferred the title to her name. Hence, TCT No. T-402, registered in the names of Felonia and De Guzman, was canceled and TCT No. 44848 in the name of Delgado, was issued.

Aggrieved, Felonia and De Guzman elevated the case to the CA through a Petition for Annulment of Judgment.^[10]

Meanwhile, on 2 June 1995, Delgado mortgaged the subject property to Homeowners Savings and Loan Bank (HSLB) using her newly registered title. Three (3) days later, or on 5 June 1995, HSLB caused the annotation of the mortgage.

On 14 September 1995, Felonia and De Guzman caused the annotation of a Notice of *Lis Pendens* on Delgado's title, TCT No. 44848. The Notice states:

Entry No. 8219/T-44848 – NOTICE OF LIS PENDENS – filed by Atty. Humberto A. Jambora, Counsel for the Plaintiff, that a case been commenced in the RTC, Branch 38, Manila, entitled ASUNCION P. FELONIA and LYDIA DE GUZMAN thru VERONICA P. BELMONTE, as Atty-in-fact (Plaintiffs) v.s. MARIE MICHELLE DELGADO defendant in Civil Case No. 91-59654 for Reformation of Instrument. Copy on file in this Registry.

Date of Instrument – Sept. 11, 1995

Date of Inscription – Sept. 14, 1995 at 9:55 a.m.^[11]

On 20 November 1997, HSLB foreclosed the subject property and later consolidated ownership in its favor, causing the issuance of a new title in its name, TCT No.

On 27 October 2000, the CA annulled and set aside the decision of the RTC, Las Piñas City in the Consolidation case. The decision of the CA, declaring Felonia and De Guzman as the absolute owners of the subject property and ordering the cancellation of Delgado's title, became final and executory on 1 December 2000.^[12] Thus:

WHEREFORE, the petition is GRANTED and the subject judgment of the court *a quo* is ANNULLED and SET ASIDE.^[13]

On 29 April 2003, Felonia and De Guzman, represented by Maribel Frias (Frias), claiming to be the absolute owners of the subject property, instituted the instant complaint against Delgado, HSLB, Register of Deeds of Las Piñas City and Rhandolfo B. Amansec before the RTC of Las Piñas City for Nullity of Mortgage and Foreclosure Sale, Annulment of Titles of Delgado and HSLB, and finally, Reconveyance of Possession and Ownership of the subject property in their favor.

As defendant, HSLB asserted that Felonia and De Guzman are barred from laches as they had slept on their rights to timely annotate, by way of Notice of *Lis Pendens*, the pendency of the Reformation case. HSLB also claimed that it should not be bound by the decisions of the CA in the Reformation and Consolidation cases because it was not a party therein. Finally, HSLB asserted that it was a mortgagee in good faith because the mortgage between Delgado and HSLB was annotated on the title on 5 June 1995, whereas the Notice of *Lis Pendens* was annotated only on 14 September 1995.

After trial, the RTC ruled in favor of Felonia and De Guzman as the absolute owners of the subject property. The dispositive portion of the RTC decision reads:

WHEREFORE, premises considered, the Court hereby finds for the [Felonia and De Guzman] with references to the decision of the Court of Appeals in CA-G.R. CV No. 49317 and CA-G.R. SP No. 43711 as THESE TWO DECISIONS CANNOT BE IGNORED and against [Delgado] and [HSLB], Register of Deeds of Las Piñas City ordering the (sic) as follows:

1. The Register of Deeds of Las Piñas City to cancel Transfer Certificate of Title Nos. 44848 and T-64668 as null and void and reinstating Transfer Certificate of Title No. T-402 which shall contain a memorandum of the fact and shall in all respect be entitled to like faith and credit as the original certificate of title and shall, thereafter be regarded as such for all intents and purposes under the law;
2. Declaring the Mortgage Sheriff's Sale and the Certificate of Sale issued in favor of HSLB null and void, without prejudice to whatever rights the said Bank may have against [Delgado];
3. Ordering [Delgado] to pay [Felonia and De Guzman] the amount of PHP500,000.00 for compensatory damages;

4. Ordering [Delgado] to pay [Felonía and De Guzmán] the amount of PHP500,000.00 for exemplary damages;
5. Ordering [Delgado] to pay [Felonía and De Guzmán] the amount of PHP500,000.00 for moral damages;
6. Ordering [Delgado] to pay 20% of the total obligations as and by way of attorney's fees;
7. Ordering [Delgado] to pay cost of suit.^[14]

On appeal, the CA affirmed with modifications the trial court decision. The dispositive portion of the appealed Decision reads:

WHEREFORE, in the light of the foregoing, the decision appealed from is AFFIRMED with the MODIFICATIONS that the awards of actual damages and attorney's fees are DELETED, moral and exemplary damages are REDUCED to P50,000.00 each, and Delgado is ordered to pay the appellees P25,000.00 as nominal damages.^[15]

Hence, this petition.

Notably, HSLB does not question the affirmance by the CA of the trial court's ruling that TCT No. 44848, the certificate of title of its mortgagor-vendor, and TCT No. 64668, the certificate of title that was secured by virtue of the Sheriff's sale in its favor, should be cancelled "as null and void" and that TCT No. T-402 in the name of Felonía and De Guzmán should be reinstated.

Recognizing the validity of TCT No. T-402 restored in the name of Felonía and De Guzmán, petitioners pray that the decision of the CA be modified "to the effect that the mortgage lien in favor of petitioner HSLB annotated as entry No. 4708-12 on TCT No. 44848 be [ordered] carried over on TCT No. T-402 after it is reinstated in the name of [Felonía and De Guzmán]."^[16]

Proceeding from the ruling of the CA that it is a mortgagee in good faith, HSLB argues that a denial of its prayer would run counter to jurisprudence giving protection to a mortgagee in good faith by reason of public policy.

We cannot grant the prayer of petitioner. The priorly registered mortgage lien of HSLB is now worthless.

Arguably, HSLB was initially a mortgagee in good faith. In *Bank of Commerce v. San Pablo, Jr.*,^[17] the doctrine of mortgagee in good faith was explained:

There is, however, a situation where, despite the fact that the mortgagor is not the owner of the mortgaged property, his title being fraudulent, the mortgage contract and any foreclosure sale arising there from are given effect by reason of public policy. This is the doctrine of "the mortgagee in good faith" based on the rule that all persons dealing with property covered by the Torrens Certificates of Title, as buyers or mortgagees, are not required to go beyond what appears on the face of the title. The public interest in upholding indefeasibility of a certificate of title, as

evidence of lawful ownership of the land or of any encumbrance thereon, protects a buyer or mortgagee who, in good faith, relied upon what appears on the face of the certificate of title.

When the property was mortgaged to HSLB, the registered owner of the subject property was Delgado who had in her name TCT No. 44848. Thus, HSLB cannot be faulted in relying on the face of Delgado's title. The records indicate that Delgado was at the time of the mortgage in possession of the subject property and Delgado's title did not contain any annotation that would arouse HSLB's suspicion. HSLB, as a mortgagee, had a right to rely in good faith on Delgado's title, and in the absence of any sign that might arouse suspicion, HSLB had no obligation to undertake further investigation. As held by this Court in *Cebu International Finance Corp. v. CA*:^[18]

The prevailing jurisprudence is that a mortgagee has a right to rely in good faith on the certificate of title of the mortgagor of the property given as security and in the absence of any sign that might arouse suspicion, has no obligation to undertake further investigation. Hence, even if the mortgagor is not the rightful owner of, or does not have a valid title to, the mortgaged property, the mortgagee or transferee in good faith is nonetheless entitled to protection.

However, the rights of the parties to the present case are defined not by the determination of whether or not HSLB is a mortgagee in good faith, but of whether or not HSLB is a purchaser in good faith. And, HSLB is not such a purchaser.

A purchaser in good faith is defined as one who buys a property without notice that some other person has a right to, or interest in, the property and pays full and fair price at the time of purchase or before he has notice of the claim or interest of other persons in the property.^[19]

When a prospective buyer is faced with facts and circumstances as to arouse his suspicion, he must take precautionary steps to qualify as a purchaser in good faith. In *Spouses Mathay v. CA*,^[20] we determined the duty of a prospective buyer:

Although it is a recognized principle that a person dealing on a registered land need not go beyond its certificate of title, it is also a firmly settled rule that where there are circumstances which would put a party on guard and prompt him to investigate or inspect the property being sold to him, such as the presence of occupants/tenants thereon, it is of course, expected from the purchaser of a valued piece of land to inquire first into the status or nature of possession of the occupants, i.e., whether or not the occupants possess the land *en concepto de dueño*, in the concept of the owner. As is the common practice in the real estate industry, an ocular inspection of the premises involved is a safeguard a cautious and prudent purchaser usually takes. Should he find out that the land he intends to buy is occupied by anybody else other than the seller who, as in this case, is not in actual possession, it would then be incumbent upon the purchaser to verify the extent of the occupant's possessory rights. The failure of a prospective buyer to take such precautionary steps would mean negligence on his part and would thereby preclude him from claiming or invoking the rights of a purchaser in good faith.