

FIRST DIVISION

[G.R. No. 200468, March 19, 2014]

**MACARIA ARGUELLES AND THE HEIRS OF THE DECEASED
PETRONIO ARGUELLES, PETITIONERS, VS. MALARAYAT RURAL
BANK, INC., RESPONDENT.**

D E C I S I O N

VILLARAMA, JR., J.:

Before us is a petition for review on certiorari assailing the Decision^[1] dated December 19, 2011 and Resolution^[2] dated February 6, 2012 of the Court of Appeals (CA) in CA-G.R. CV No. 92555. The CA had reversed and set aside the July 29, 2008 Decision^[3] of the Regional Trial Court (RTC) Branch 86, of Taal, Batangas, in Civil Case No. 66.

The facts, as culled from the records, follow:

The late Fermina M. Guia was the registered owner of Lot 3, a parcel of agricultural land in Barrio Pinagkurusan, Alitagtag, Batangas, with an area of 4,560 square meters, as evidenced by Original Certificate of Title (OCT) No. P-12930^[4] of the Register of Deeds of Batangas. On December 1, 1990, Fermina M. Guia sold the south portion of the land with an approximate area of 1,350 square meters to the spouses Petronio and Macaria Arguelles.^[5] Although the spouses Arguelles immediately acquired possession of the land, the Deed of Sale was neither registered with the Register of Deeds nor annotated on OCT No. P-12930. At the same time, Fermina M. Guia ordered her son Eddie Guia and the latter's wife Teresita Guia to subdivide the land covered by OCT No. P-12930 into three lots and to apply for the issuance of separate titles therefor, to wit: Lot 3-A, Lot 3-B, and Lot 3-C. Thereafter, she directed the delivery of the Transfer Certificate of Title (TCT) corresponding to Lot 3-C to the vendees of the unregistered sale or the spouses Arguelles. However, despite their repeated demands, the spouses Arguelles claimed that they never received the TCT corresponding to Lot 3-C from the spouses Guia.

Nevertheless, in accordance with the instructions of Fermina M. Guia, the spouses Guia succeeded in cancelling OCT No. P-12930 on August 15, 1994 and in subdividing the lot in the following manner:

Lot No.	TCT No.	Registered Owner
3-A	T-83943	Fermina M. Guia
3-B	T-83945	Spouses Datingaling
3-C	T-83944	Fermina M. Guia ^[6]

On August 18, 1997, the spouses Guia obtained a loan in the amount of P240,000 from the respondent Malarayat Rural Bank and secured the loan with a Deed of Real Estate Mortgage^[7] over Lot 3-C. The loan and Real Estate Mortgage were made pursuant to the Special Power of Attorney^[8] purportedly executed by the registered owner of Lot 3-C, Fermina M. Guia, in favor of the mortgagors, spouses Guia. Moreover, the Real Estate Mortgage and Special Power of Attorney were duly annotated in the memorandum of encumbrances of TCT No. T-83944 covering Lot 3-C.

The spouses Arguelles alleged that it was only in 1997 or after seven years from the date of the unregistered sale that they discovered from the Register of Deeds of Batangas City the following facts: (1) subdivision of Lot 3 into Lots 3-A, 3-B, and 3-C; (2) issuance of separate TCTs for each lot; and (3) the annotation of the Real Estate Mortgage and Special Power of Attorney over Lot 3-C covered by TCT No. T-83944. Two years thereafter, or on June 17, 1999, the spouses Arguelles registered their adverse claim^[9] based on the unregistered sale dated December 1, 1990 over Lot 3-C.

On July 22, 1999, the spouses Arguelles filed a complaint^[10] for *Annulment of Mortgage and Cancellation of Mortgage Lien with Damages* against the respondent Malarayat Rural Bank with the RTC, Branch 86, of Taal, Batangas. In asserting the nullity of the mortgage lien, the spouses Arguelles alleged ownership over the land that had been mortgaged in favor of the respondent Malarayat Rural Bank. On August 16, 1999, the respondent Malarayat Rural Bank filed an Answer with Counterclaim and *Cross-claim*^[11] against cross-claim-defendant spouses Guia wherein it argued that the failure of the spouses Arguelles to register the Deed of Sale dated December 1, 1990 was fatal to their claim of ownership.

On July 29, 2008, the RTC rendered a Decision, the dispositive portion of which reads as follows:

WHEREFORE, premises considered judgment is hereby rendered:

- 1) declaring the mortgage made by the defendants spouses Eddie Guia and Teresita Guia in favor of defendant Malarayat Rural Bank null and void;
- 2) setting aside the foreclosure sale had on December 6, 1999 and the corresponding certificate of sale issued by this Court dated May 12, 2000;
- 3) ordering the Register of Deeds of the Province of Batangas to cancel the annotation pertaining to the memorandum of encumbrances (entries no. 155686 and 155688) appearing in TCT No. T-839[4]4;
- 4) ordering cross defendants spouses Eddie and Teresita Guia to pay the amount of Php240,000.00 to cross claimant Malarayat Rural [B]ank corresponding to the total amount of the loan obligation, with interest herein modified at 12% per annum computed from default;
- 5) ordering defendants spouses Eddie and Teresita Guia to pay plaintiffs Arguelles the amount of Php100,000.00 as moral

damages. However, the prayer of the plaintiffs to order the registration of the deed of sale in their favor as well as the subsequent issuance of a new title in their names as the registered owners is denied considering that there are other acts that the plaintiffs ought to do which are administrative in nature, and are dependent upon compliance with certain requirements pertaining to land acquisition and transfer.

SO ORDERED.^[12]

The RTC found that the spouses Guia were no longer the absolute owners of the land described as Lot 3-C and covered by TCT No. T-83944 at the time they mortgaged the same to the respondent Malarayat Rural Bank in view of the unregistered sale in favor of the vendee spouses Arguelles. Thus, the RTC annulled the real estate mortgage, the subsequent foreclosure sale, and the corresponding issuance of the certificate of title. Moreover, the RTC declared that the respondent Malarayat Rural Bank was not a mortgagee in good faith as it failed to exercise the exacting degree of diligence required from banking institutions.

On September 16, 2008, the respondent filed a notice of appeal with the CA.

On December 19, 2011, the CA reversed and set aside the decision of the court *a quo*:

IN LIGHT OF THE FOREGOING, premises considered, the instant appeal is GRANTED. Accordingly, the Decision of the RTC of Taal, Batangas, Branch 86 promulgated on July 29, 2008 in Civil Case No. 66 is hereby REVERSED AND SET ASIDE and the complaint below dismissed.

SO ORDERED.^[13]

In granting the appeal, the CA held that because of the failure of the spouses Arguelles to register their deed of sale, the unregistered sale could not affect the respondent Malarayat Rural Bank. Thus, the respondent Malarayat Rural Bank has a better right to the land mortgaged as compared to spouses Arguelles who were the vendees in the unregistered sale. In addition, the CA found that the respondent Malarayat Rural Bank was a mortgagee in good faith as it sufficiently demonstrated due diligence in approving the loan application of the spouses Guia.

Aggrieved, the petitioners filed the instant petition raising the following issues for resolution:

A

THE COURT OF APPEALS ERRED IN HOLDING THAT THE DEED OF SALE EXECUTED BY FERMINA GUIA IN FAVOR OF THE SPOUSES PETRONIO AND MACARIA ARGUELLES CANNOT BE ENFORCED AGAINST APPELLANT BANK FOR NOT BEING REGISTERED AND ANNOTATED IN THE CERTIFICATE OF TITLE, DESPITE THE FACT THAT THE BANK HAD ACTUAL

KNOWLEDGE THEREOF.

B

THE COURT OF APPEALS COMMITTED A MISTAKE IN FINDING THAT APPELLANT BANK IS A MORTGAGEE IN GOOD FAITH NOTWITHSTANDING CONCLUSIVE EVIDENCE ON RECORD THAT IT WAS GROSSLY NEGLIGENT IN NOT ASCERTAINING THE REAL CONDITION OF THE PROPERTY IN THE POSSESSION OF THE SPOUSES ARGUELLES BEFORE ACCEPTING IT AS COLLATERAL FOR THE LOAN APPLIED FOR BY A MERE ATTORNEY-IN-FACT.

C

THE COURT OF APPEALS COMMITTED AN ERROR IN DECLARING APPELLANT BANK HAS BECOME THE ABSOLUTE OWNER OF THE SUBJECT PROPERTY NOTWITHSTANDING THE NULLITY OF THE REAL ESTATE MORTGAGE EXTRAJUDICIALLY FORECLOSED BY IT.

D

THE COURT OF APPEALS ERRED IN HOLDING THAT THE SPOUSES ARGUELLES DID NOT PUT IN ISSUE THAT APPELLANT BANK HAD CONSTRUCTIVE NOTICE AND POSSESSION OF THE SUBJECT LOT.^[14]

In fine, the issue in this case is whether the respondent Malarayat Rural Bank is a mortgagee in good faith who is entitled to protection on its mortgage lien.

Petitioners imputed negligence on the part of respondent Malarayat Rural Bank when it approved the loan application of the spouses Guia. They pointed out that the bank failed to conduct a thorough ocular inspection of the land mortgaged and an extensive investigation of the title of the registered owner. And since the respondent Malarayat Rural Bank cannot be considered a mortgagee in good faith, petitioners argued that the unregistered sale in their favor takes precedence over the duly registered mortgage lien. On the other hand, respondent Malarayat Rural Bank claimed that it exercised the required degree of diligence before granting the loan application. In particular, it asserted the absence of any facts or circumstances that can reasonably arouse suspicion in a prudent person. Thus, the respondent Malarayat Rural Bank argued that it is a mortgagee in good faith with a better right to the mortgaged land as compared to the vendees to the unregistered sale.

The petition is meritorious.

At the outset, we note that the issue of whether a mortgagee is in good faith generally cannot be entertained in a petition filed under Rule 45 of the 1997 Rules of Civil Procedure, as amended.^[15] This is because the ascertainment of good faith or the lack thereof, and the determination of negligence are factual matters which lay outside the scope of a petition for review on certiorari.^[16] However, a recognized exception to this rule is when the RTC and the CA have divergent findings of fact^[17] as in the case at bar. We find that the respondent Malarayat Rural Bank is not a