

THIRD DIVISION

[G.R. NO. 167848, April 27, 2007]

BANK OF COMMERCE, PETITIONER, VS. SPS. PRUDENCIO SAN PABLO, JR., AND NATIVIDAD O. SAN PABLO, RESPONDENTS.

D E C I S I O N

CHICO-NAZARIO, J.:

Before this Court is a Petition for Review on *Certiorari* under Rule 45 of the Revised Rules of Court, filed by petitioner Bank of Commerce seeking to reverse and set aside the Decision^[1] of the Court of Appeals dated 10 September 2004, and its Resolution^[2] dated 10 March 2005. The Court of Appeals, in its assailed Decision and Resolution reversed the Decision^[3] of the Regional Trial Court (RTC) of Mandaue City, Branch 56 dated 25 June 2002, which affirmed the Decision,^[4] of the Municipal Trial Court (MTC) of Mandaue City, Branch 2, dismissing for lack of merit the complaint against Melencio Santos (Santos) and the Bank of Commerce filed by the respondent Spouses Prudencio (Prudencio) and Natividad (Natividad) San Pablo for the declaration of nullity of the Special Power of Attorney (SPA) and cancellation of Real Estate Mortgage. The dispositive portion of the Court of Appeals Decision reads:

WHEREFORE, the Petition for review is GRANTED and the assailed Decision and Order of the Regional Trial Court, Branch 56, Mandaue City, Cebu, in Civil Case 4135-A must be as they are hereby, SET ASIDE. We therefore declare the so-called Special Power of Attorney, the Deed of Real Estate Mortgage and the Foreclosure proceedings to be NULL and VOID *ab initio*. And, in the meantime, if the subject Lot No. 1882-C-1-A covered by Transfer Certificate of Title No. (26469)-7561 has been sold and a new transfer certificate of title had been issued, let the Registry of deeds of Mandaue City cancel the new title and issue a new one in favor of Natividad O. San Pablo, unless the new title holder is a purchaser in good faith and for value. In the latter case, respondent Bank of Commerce and respondent Melencio G. Santos are hereby held jointly and severally liable to petitioners for the fair market value of the property as of the date of finality of this decision. Moreover, private respondents are likewise held jointly and severally liable to petitioners P50,000.00 as moral damages, P25,000.00 as exemplary damages, P25,000.00 plus P1,000.00 per count appearance as attorney's fees and P10,000.00 as litigation expenses. No costs.

The antecedent factual and procedural facts of this case are as follows:

On 20 December 1994, Santos obtained a loan from Direct Funders Management and Consultancy Inc., (Direct Funders) in the amount of P1,064,000.40.^[5]

As a security for the loan obligation, Natividad executed a SPA^[6] in favor of Santos, authorizing the latter to mortgage to Direct Funders a paraphernal real property registered under her name and covered by Transfer Certificate of Title (TCT) No. (26469)-7561^[7] (subject property).

In the Deed of Real Estate Mortgage^[8] executed in favor of Direct Funders, Natividad and her husband, Prudencio, signed as the co-mortgagors of Santos. It was, however, clear between the parties that the loan obligation was for the sole benefit of Santos and the spouses San Pablo merely signed the deed in order to accommodate the former.

The aforesaid accommodation transaction was made possible because Prudencio and Santos were close friends and business associates. Indeed, Prudencio was an incorporator and a member of the Board of Directors of Intergems Fashion Jewellries Corporation (Intergems), a domestic corporation in which Santos acted as the President.

Sometime in June 1995, the spouses San Pablo received a letter from Direct Funders informing them that Santos failed to pay his loan obligation with the latter. When confronted with the matter, Santos promised to promptly settle his obligation with Direct Funders, which he actually did the following month.

Upon learning that Santos' debt with Direct Funders had been fully settled, the spouses San Pablo then demanded from Santos to turn over to them the TCT of the subject property but the latter failed to do so despite repeated demands. Such refusal prompted the spouses San Pablo to inquire as to the status of the TCT of the subject property with the Register of Deeds of Mandaue City and to their surprise, they discovered that the property was again used by Santos as collateral for another loan obligation he secured from the Bank of Commerce.

As shown in the annotation stamped at the back of the title, the spouses San Pablo purportedly authorized Santos to mortgage the subject property to the Bank of Commerce, as evidenced by the SPA allegedly signed by Natividad on 29 March 1995. It was further shown from the annotation at the back of the title that the spouses San Pablo signed a Deed of Real Estate Mortgage over the subject property in favor of Bank of Commerce, which they never did.^[9]

In order to free the subject property from unauthorized encumbrances, the spouses San Pablo, on 22 December 1995, filed a Complaint seeking for the Quieting of Title and Nullification of the SPA and the deed of real estate mortgage with the prayer for damages against Santos and the Bank of Commerce before the MTC of Mandaue City, Branch 2.

In their complaint, the spouses San Pablo claimed that their signatures on the SPA and the Deed of Real Estate Mortgage allegedly executed to secure a loan with the Bank of Commerce were forged. They claimed that while the loan with the Direct Funders was obtained with their consent and direct participation, they never authorized the subsequent loan obligation with the Bank of Commerce.

During the pendency of the case, the Bank of Commerce, for non-payment of the loan, initiated the foreclosure proceedings on the strength of the contested Deed of

Real Estate Mortgage. During the auction sale, the Bank of Commerce emerged as the highest bidder and thus a Certificate of Sale was issued under its name. Accordingly, the spouses San Pablo amended their complaint to include the prayer for annulment of the foreclosure sale.^[10]

In his Answer,^[11] Santos countered that the loan with the Bank of Commerce was deliberately resorted to with the consent, knowledge and direct participation of the spouses San Pablo in order to pay off the obligation with Direct Funders. In fact, it was Prudencio who caused the preparation of the SPA and together with Santos, they went to the Bank of Commerce, Cebu City Branch to apply for the loan. In addition, Santos averred that the spouses San Pablo were receiving consideration from Intergems for extending accommodation transactions in favor of the latter.

For its part, Bank of Commerce filed an Answer with Compulsory Counterclaim,^[12] alleging that the spouses San Pablo, represented by their attorney-in-fact, Santos, together with Intergems, obtained a loan in the amount of P1,218,000.00. It denied the allegation advanced by the spouses San Pablo that the SPA and the Deed of Real Estate Mortgage were spurious. Since the loan already became due and demandable, the Bank of Commerce sought the foreclosure of the subject property.

After the Pre-Trial Conference, trial on the merits ensued.

During the trial, Anastacio Barbarona, Jr., the Manager of the Bank of Commerce, Cebu City Branch, testified that the spouses San Pablo personally signed the Deed of Real Estate Mortgage in his presence.^[13] The testimony of a document examiner and a handwriting expert, however, belied this claim. The expert witness, after carefully examining the loan documents with the Bank of Commerce, attested that the signatures of the spouses San Pablo on the SPA and the Deed of Real Estate Mortgage were forged.^[14]

On 10 July 2001, the MTC rendered a Decision,^[15] dismissing the complaint for lack of merit. The MTC declared that while it was proven that the signatures of the spouses San Pablo on the loan documents were forged, the Bank of Commerce was nevertheless in good faith. The dispositive portion of the decision reads:

WHEREFORE, foregoing considered, the instant complaint is hereby ordered DISMISSED for lack of merit. The dismissal of this case is without prejudice to the filing of the appropriate criminal action against those responsible for the falsification of the questioned special power of attorney and deed of real estate mortgage.

Aggrieved, the spouses San Pablo appealed the adverse decision to the RTC of Mandaue City, Branch 56, which, in turn, affirmed the unfavorable ruling of the MTC in its Decision^[16] promulgated on 25 June 2002. The decretal part of the said decision reads:

WHEREFORE, in view of the foregoing, the Court hereby resolves to affirm the assailed Decision.

Similarly ill-fated was the Motion for Reconsideration filed by the spouses San Pablo which was denied by the RTC for lack of merit.^[17]

Unyielding, the spouses San Pablo elevated the matter before the Court of Appeals through a Petition for Review under Rule 42 of the Revised Rules of Court,^[18] assailing the adverse decisions of the MTC and RTC.

In a Decision^[19] dated 10 September 2004, the appellate court granted the petition filed by the spouses San Pablo and reversed the decisions of the MTC and RTC. In setting aside the rulings of the lower courts, the Court of Appeals ruled that since it was duly proven that the signatures of the spouses San Pablo on the loan documents were forged, then such spurious documents could never become a valid source of title. The mortgage contract executed by Santos over the subject property in favor of Bank of Commerce, without the authority of the spouses San Pablo, was therefore unenforceable, unless ratified.

The Bank of Commerce is now before this Court assailing the adverse decision rendered by the Court of Appeals.^[20] For the resolution of this Court are the following issues:

I.

WHETHER OR NOT THE MTC HAS JURISDICTION TO HEAR THE CASE FILED BY THE SPOUSES SAN PABLO.

II.

WHETHER OR NOT THE FORGED SPA AND SPECIAL POWER OF ATTORNEY COULD BECOME A VALID SOURCE OF A RIGHT TO FORECLOSE A PROPERTY.

III.

WHETHER OR NOT THE AWARDS OF DAMAGES, ATTORNEY'S FEES AND LITIGATION EXPENSES ARE PROPER IN THE INSTANT CASE.

In questioning the adverse ruling of the appellate court, the Bank of Commerce, for the first time in more than 10 years of pendency of the instant case, raises the issue of jurisdiction. It asseverates that since the subject matter of the case is incapable of pecuniary estimation, the complaint for quieting of title and annulment of the SPA, the Deed of Real Estate Mortgage, and foreclosure proceedings should have been originally filed with the RTC and not with the MTC. The decision rendered by the MTC, which did not acquire jurisdiction over the subject matter of the case, is therefore void from the very beginning. Necessarily, the Court of Appeals erred in giving due course to the petition when the tribunal originally trying the case had no authority to try the issue.

We do not agree.

Upon cursory reading of the records, we gathered that the case filed by the spouses San Pablo before the MTC was an action for quieting of title, and nullification of the SPA, Deed of Real Estate Mortgage, and foreclosure proceedings. While the body of the complaint consists mainly of allegations of forgery, however, the primary object of the spouses San Pablo in filing the same was to effectively free the title from any

unauthorized lien imposed upon it.

Clearly, the crux of the controversy before the MTC chiefly hinges on the question of who has the better title over the subject property. Is it the spouses San Pablo who claim that their signatures on the loan document were forged? Or is it the Bank of Commerce which maintains that the SPA and the Deed of Real Estate Mortgage were duly executed and, therefore, a valid source of its right to foreclose the subject property for non-payment of loan?

An action for quieting of title is a common law remedy for the removal of any cloud upon or doubt or uncertainty with respect to title to real property. As clarified by this Court in *Baricuatro, Jr. v. Court of Appeals*^[21]:

Originating in equity jurisprudence, its purpose is to secure "... an adjudication that a claim of title to or an interest in property, adverse to that of the complainant, is invalid, so that the complainant and those claiming under him may be forever afterward free from any danger or hostile claim. **In an action for quieting of title, the competent court is tasked to determine the respective rights of the complainant and other claimants,**"... not only to place *things in their proper place*, to make the one who has no rights to said immovable respect and not disturb the other, but also for the benefit of both, so that he who has the right would see every cloud of doubt over the property dissipated, and he could afterwards without fear introduce the improvements he may desire, to use, and even to abuse the property as he deems best (citation omitted). Such remedy may be availed of under the circumstances enumerated in the Civil Code:

ART. 476. **Whenever there is a cloud on title to real property or any interest therein, by reason of any instrument, record, claim, encumbrance or proceeding** which is apparently valid or effective but is in truth and in fact invalid, ineffective, voidable, or unenforceable, and may be prejudicial to said title, **an action may be brought to remove such cloud or to quiet the title,**

An action may also be brought to prevent a cloud from being cast upon title to real property or any interest therein.
(Emphases supplied.)

The mortgage of the subject property to the Bank of Commerce, annotated on the Spouses San Pablo's TCT, constitutes a cloud on their title to the subject property, which may, at first, appear valid and effective, but is allegedly invalid or voidable for having been made without their knowledge and authority as registered owners. We thus have established that the case filed by the spouses San Pablo before the MTC is actually an action for quieting of title, a real action, the jurisdiction over which is determined by the assessed value of the property.^[22] The assessed value of the subject property located in Mandaue City, as alleged in the complaint, is P4,900.00, which aptly falls within the jurisdiction of the MTC.

According to Section 33 of *Batas Pambansa Blg. 129*, as amended, otherwise known as The Judiciary Reorganization Act of 1980: