

FIRST DIVISION

[G.R. No. 126777, April 29, 1999]

**DOMINGO LAO AND ERNESTO T. LAO, PETITIONERS, VS.
ESTRELLA VILLONES-LAO, SPS. MANUEL AND ANGELITA MALAN,
SPS. CARLOS AND SOCORRO VILLENA, RESPONDENTS.**

D E C I S I O N

PARDO, J.:

The case is a petition for review on certiorari of the decision of the Court of Appeals, [1] and its Resolution [2] reversing the decision of the trial court, and finding herein respondents Spouses Villena's as mortgagees in good faith making their title to the property [3], subject of this petition valid.

The facts of the case are as follows:

The spouses Domingo and Estrella Lao, during their marriage, acquired a real estate property located at 6 Arayat St., Cubao, Quezon City, covered by TCT No.T-268732 of the Register of Deeds of Quezon City. It has a total land area of 808 sq.m., and an estimated value of P1,500,000.00, including the improvements. In 1974, the spouses separated. The property was at that time still mortgaged with MetroBank and Trust Company.

However, after full payment of the loan obtained by Domingo Lao from MetroBank, Estrella Lao was able to secure release of the title of the property and had the mortgage therein cancelled unknown to Domingo.

Domingo Lao was leasing the subject property to Filmart at a monthly rental of P7,000.00. Sometime in August 1982, Domingo Lao learned that the title had been cancelled and a new one issued in the name of the respondents spouses Carlos and Socorro Patenia-Villena. Domingo Lao came to know this when Carlos Villena, Jr. visited the premises and informed the tenants that he (Villena) was the new owner of the property. Domingo Lao then went to the Office of the Register of Deeds of Quezon City and inquired into the record of the property. True enough, he was informed that his title has been cancelled and a new one issued in favor of the Villena spouses.

Estrella, the estranged wife of Domingo Lao, was in dire financial straits and was seeking a financial accommodation. The spouses Manuel and Angelita Malana, whom Estrella met at one time, came to her house and represented themselves as agents of Carlos Villena. The Malanas introduced Estrella Lao to Villena on May 22, 1980.

Upon meeting Estrella Lao, Carlos Villena Jr. indicated his willingness to grant her a loan, but noted that the title was in the name of the spouses Estrella and Domingo and their son Ernesto Lao. Estrella Lao must obtain a Special Power of Attorney from

Domingo and Ernesto Lao. Estrella Lao admitted this would be difficult as she and her husband had been estranged for many years, and were not even on speaking terms. However, the Malana spouses assured her they would help her secure the Special Power of Attorney.

After three days Estrella Lao returned to the Villenas together with the Malanas with the Special Power of Attorney (SPA) signed by Domingo and Ernesto Lao, and duly notarized. The spouses Villena relied on the said notarized SPA, and found nothing suspicious that it was so easily obtained by Estrella Lao only after three days, when they were in fact aware that Estrella and Domingo Lao were estranged from each other. Villena therefore entered into a contract of mortgage with Estrella Lao with the 808 sq.m. land as collateral.

After Estrella Lao failed to make payments on the loan, Carlos Villena Jr. effected an extra-judicial foreclosure and sale at public auction of the property on July 27, 1981^[4] and the Register of Deeds issued a new Certificate of Title in the name of the spouses Carlos and Socorro Villena.

Domingo Lao, after being appraised of what happened to the property, filed on April 27, 1983, with the Regional Trial Court Quezon City, Branch 76, a complaint for the annulment of the special power of attorney, mortgage, extra-judicial foreclosure, and the cancellation TCT No. 290029 and reconveyance of title.^[5]

On September 28, 1992, the Regional trial Court, Branch 76, Quezon City rendered decision the dispositive portion of which reads as follows:

"WHEREFORE, in view of the foregoing, the court hereby declares null and void the following:

1. The special power of attorney;
2. Deed of real estate mortgage;
3. The foreclosure proceedings;
4. Transfer Certificate of Title No. 290029 in the name of the Villena spouses, and orders the Register of Deeds of Quezon City to cancel the said title and issue a new one in favor of Domingo Lao, Ernesto Lao, and Estrella Villones-Lao with the same participation as appearing in TCT No. T-268732 of the Registry of Deeds of Quezon City, namely: Estrella Villones-Lao, 50%; Domingo Lao, 30%; and Ernesto Lao, 20%."

"The Court further orders the defendants Estrella Villones-Lao, spouses Manuel and Angelita Malana and the spouses Carlos and Socorro Patenia Villena to pay the plaintiff, jointly and severally, the sum of P15,000.00 as moral damages, P10,000.00 as attorney's fees, P10,000.00 as reasonable litigation expenses and to pay the costs. Defendant Villenas are ordered to pay the sum of P840,000.00 as unearned rentals computed at P7,000.00 a month from September 1982 to September 1992 plus interest at 12% per annum until fully paid.

"Considering that a special characteristic of a real estate mortgage is its indivisibility (Art 2089 of the Civil Code) even through the debt secured may be divided among the debtors or creditors or other successors in interest, the deed of real estate mortgage executed by Estrella Villones-Lao with respect to her undivided not share in property. The nullity notwithstanding, Villena can recover the indebtedness of Estrella Villones-Lao through an ordinary suit.^[6]

A motion to modify the judgment was filed by petitioners Domingo and Ernesto Lao, on October 12, 1992^[7], which was granted by the lower court and a modified judgement was issued on February 11, 1993.^[8] The modified judgment further orders the spouses Carlos and Socorro Villena and their representatives and assigns to immediately vacate the premises located at Cubao, Quezon City and that a new Certificate of Title be issued in favor of spouses Domingo and Estrella Lao with the 20% share of Ernesto Lao annotated at the back..^[9]

On February 23, 1993 respondent spouses Villena filed their notice of appeal. On February 19, 1993 the spouses Malana filed their notice of appeal.

After due proceedings, on July 11, 1996, the Court of Appeals rendered decision on July 11, 1996, reversing the lower court's decision, the dispositive portion of which reads as follows:

WHEREFORE, the trial court's decision is REVERSED and SET ASIDE, and in lieu thereof, a new decision is hereby rendered declaring the Deed of Real Estate Mortgage dated June 17, 1980 and the foreclosure sale valid, upholding the validity of the villenas' title to TCT No. 290029, and ordering that the property be transferred in Villenas' name.^[10]

On August 14, 1996 petitioner filed a motion for reconsideration. However the Court of Appeals denied the motion.

Hence, this petition.

In this appeal, petitioner imputes the following errors to the Court of Appeals:

1. The respondents were mortgagees in good faith, not being privy to the forgery of the special power of attorney; and
2. Petitioners were negligent in entrusting the original owners certificate of title to respondent Estrella Villones-Lao.

The petitioners argue that the Villenas' can not be considered as mortgagees in good faith since at the first instance they knew that Estrella Lao and her husband Domingo Lao had been estranged from each other. When Estrella Lao together with the Malana spouses came to him with the Special Power of Attorney (SPA) after only three days, this should have put Villena in doubt as to the authenticity of the SPA, after all the rule of commerce is *caveat emptor*.^[11]

Petitioners further stress the fact that a reasonably prudent man would have been surprised at the very least when Estrella Lao and the Malanas showed up three days later with a special power of attorney signed by the co-owners Domingo and Ernesto

Lao. While Estrella Lao was a co-owner of the property, she was nevertheless a stranger with regard to the sale or disposition of the shares of the other co-owners. Yet, respondent Villena never even called or inform the co-owners of the mortgage, even if he knew their addresses. He went to the subject property once and made no other efforts to contact or confirm the identities of Domingo and Ernesto Lao.

According to petitioners, the Court of Appeals disregarded the requirement of ordinary prudence and diligence in the case simply because of the notarized special power of attorney. And as such the court binds petitioners to an unauthorized transaction entered into by his wife with regard to conjugal properties.

The ruling of the Court of Appeals that petitioners were given by the Villenas several opportunities to redeem the property finds no support in the factual records of the case. According to the petitioners they only met the Villenas after title was already consolidated in the name of the Villenas. Further, it would be utterly absurd for petitioners to ratify the illegal and unauthorized acts of Estrella Lao by redeeming the property foreclosed on the strength of their forged signatures.

The petitioners argue that the findings of the Court of Appeals on their negligence in giving Estrella Lao a copy of the title of the property is without basis. As a registered co-owner, Estrella Lao was entitled to the possession of an owner's copy. In fact under the provisions of P.D. 1529, a separate duplicate may be issued to each co-owner. Hence, there was no responsibility upon anyone to deny Estrella Lao possession of said title.

Petitioners raise in issue the fact that during the proceedings at the lower court it was proved that the signatures of the petitioners, Domingo and Ernesto Lao were forged. Emmanuel de Guzman, of the National Bureau of Investigation testified that upon examination and verification of the questioned signatures of Domingo and Ernesto Lao, by comparing the sample signatures and the signatures appearing on the special power of attorney, he concluded that the signatures do not match. Therefore, the signatures of Domingo and Ernesto Lao were forgeries.^[12]

Herein respondent Villena spouses, Malana spouses and Estrella Lao filed their separate comment to the petition.

Respondent spouses Villena were steadfast in their claim that since they were not privy to the forgery of the special power of attorney they can not be part of the fraud imputed by the petitioners.

According to the spouses Villena, they have exhibited the required diligence to ascertain the veracity of the representation made by Estrella by employing several precautionary measures.

They demanded for and was given the original of the owner's copy of TCT No. 268732, the location plan and Real Estate Tax Declaration of the mortgage property. They conducted an ocular inspection of the subject property and inquired who owns the property. They went to the Quezon City Register of Deeds to verify the authenticity of TCT No. 266732 and found the same to be genuine and free from liens and encumbrances. Carlos Villena even asked Estrella Lao why she preferred mortgaging the property to him rather than to Metrobank. They inquired as to the