

NINTH DIVISION

[CA-G.R. CV NO. 98406, April 29, 2014]

HEIRS OF CECILIO C. DALOMIAS, SR., NAMELY, LOURDES DE GUIA WALLACE AND CECILIO O. DALOMIAS, JR., AS REPRESENTED BY LOURDES DE GUIA WALLACE, PLAINTIFFS-APPELLEES, VS. SPS. JULIE D. ESCANDOR AND ERNIE ESCANDOR, BANK OF THE PHILIPPINE ISLANDS FAMILY SAVINGS BANK, INC. AND REGISTER OF DEEDS OF QUEZON CITY, DEFENDANTS,

BANK OF PHILIPPINES ISLANDS FAMILY SAVINGS BANK, INC., DEFENDANT-APPELLANT.

D E C I S I O N

GARCIA-FERNANDEZ, J.:

This is an appeal by defendant-appellant Bank of Philippine Islands Family Savings Bank (BPIFSB) from the decision dated January 18, 2012 of the Regional Trial Court, Branch 91 of Quezon City (RTC) in Civil Case No. Q-06-58760 for annulment of deed of donation, transfer certificate of title, deed of mortgage, certificate of sale and damages.

Spouses Cecilio Dalomias, Sr. and Soledad Dalomias were owners of a 400-square meter property upon which they built their family home located at No. 30 Masikap Street, Diliman, Quezon City and covered by Transfer Certificate of Title (TCT) No. 3354 (87239) issued in their names.^[1] Cecilio Dalomias, Sr. died on November 8, 2002, while Soledad died on January 29, 2004.^[2] They were survived by their biological son Cecilio Dalomias, Jr., who is mentally disabled, having been diagnosed with schizophrenia and confined at Nazal Halfway Home for custodial care; and Lourdes de Guia Wallace, a recognized illegitimate daughter of Cecilio Dalomias, Sr. ^[3] Lourdes de Guia Wallace was appointed judicial guardian of Cecilio Jr. by virtue of a court order dated September 10, 2008 in Special Proceeding No. Q-06-58684.^[4]

Defendant Julie Escandor is the niece of Cecilio Dalomias, Sr. by his youngest sister. ^[5] She was raised by the Spouses Dalomias and has lived in their home since 1968. ^[6] She is married to co-defendant Ernie Escandor.

Sometime in 2005, plaintiffs-appellees discovered that by virtue of a notarized deed of donation dated August 30, 2004 purportedly executed by the Spouses Dalomias in favor of the Spouses Escandor,^[7] the latter succeeded in causing the cancellation of TCT No. 3354 over the subject property and issuance of TCT No. 266610 in their names on August 31, 2004.^[8]

Plaintiffs-appellees also found out that on July 15, 2005, Spouses Escandor obtained

a loan from BPIFSB in the amount of P3,300,000.00 using the subject property as security for their loan.^[9] The mortgage loan agreement was annotated at the back of TCT No. 266610 on July 20, 2005 under Entry No. 6400.^[10] When Spouses Escandor failed to pay their obligation on due date, BPIFSB initiated extra-judicial foreclosure proceedings and emerged as the highest bidder when the subject property was sold by public auction. The certificate of sale dated March 30, 2006 in favor of BPIFSB was also annotated on the title on April 10, 2006 under Entry No. 3392.^[11]

On September 6, 2006, plaintiffs-appellees filed a complaint against defendants Spouses Escandor, the Register of Deeds of Quezon City and defendant-appellant BPIFSB for annulment of the deed of donation dated August 30, 2004, TCT No. 266610, deed of real estate mortgage and certificate of sale and damages.^[12]

On January 8, 2009, plaintiffs-appellees filed an amended complaint alleging that the deed of donation dated August 30, 2004 was falsified and forged because the Spouses Dalomias were both deceased on even date; that cancellation of TCT No. 3354 based on the falsified/forged deed of donation dated August 30, 2004 was invalid; that the transfer of title and issuance of TCT No. 266610 in the name of Spouses Escandor were likewise invalid; and that Spouses Escandor illegally obtained the loan of P3,300,000.00 from BPIFSB because they were not the real owners of the mortgaged property. Plaintiffs-appellees contended that BPIFSB failed to exercise due diligence in granting Spouses Escandor's loan application because of its failure to investigate and determine the true ownership of the mortgaged property, the circumstances surrounding the issuance of the title was issued and the existence or absence of a legitimate business or source of income; that the certificate of sale in favor of BPIFSB over the subject property sold by public auction was likewise null and void; that plaintiffs-appellees filed a criminal complaint against Spouses Escandor for falsification of public document; that by reason of the unjustified, illegal and immoral criminal acts of Spouses Escandor and the active connivance and evident bad faith of BPIFSB, plaintiffs-appellees suffered mental anguish, fright, serious anxiety and moral shock; and that plaintiffs-appellees prayed for the court to hold defendants liable for the following: moral damages of P300,000.00; exemplary damages of P300,000.00; attorney's fees of P200,000.00 plus appearance fees of P3,000.00 per hearing; and litigation expenses of P50,000.00.^[13]

Defendant Spouses Escandor failed to file their answer and were declared in default by the trial court in its resolution dated February 26, 2007.^[14]

BPIFSB filed an answer with counterclaim contending that the complaint filed by plaintiffs-appellees against them was baseless; that the extra-judicial foreclosure of the subject property was a lawful exercise of the bank's rights under the mortgage loan agreement; that Spouses Escandor defaulted on their loan obligation to the bank; that the bank was a mortgagee in good faith having no knowledge of any infirmities in Spouses Escandor's title; and that the bank conducted a survey, investigation and appraisal of the subject property before approving the Spouses Escandor's loan application. BPIFSB prayed that the complaint be dismissed for lack of merit; and that plaintiffs-appellees be ordered to pay exemplary damages in such amount as the trial court may fix; P50,000.00 as attorney's fees; P3,000.00 as

appearance fees; and litigation expenses.^[15]

On June 27, 2008, the RTC conducted pre-trial where plaintiffs-appellees and BPIFSB stipulated on the following issues to be resolved: 1) Whether or not the Spouses Dalomia executed the deed of donation dated August 20, 2004; 2) Whether TCT No. 266610 in the name of defendant Sps. Escandor has legal effects under the law; 3) Whether the deed of mortgage dated July 20, 2006 and issuance of the certificate of sale in favor of BPIFSB are valid; and 4) Whether plaintiffs and/or defendants are entitled to actual, moral and exemplary damages and attorney's fees.^[16]

On January 18, 2012, the RTC rendered a decision, the dispositive portion of which reads:

"WHEREFORE, premises considered, judgment is hereby rendered ordering the following:

- a. the Deed of Donation dated August 20, 2004 is declared as NULL and VOID.
- b. TCT No. 266610 is declared NULL and VOID;
- c. The Mortgage Loan Agreement is declared NULL and VOID.

The Register of Deeds of Quezon City is hereby ordered to reinstate TCT No. 3354 in the name of Cecilio Dalomias, Sr. and Soledad Dalomias.

SO ORDERED."^[17]

In its decision the trial court held that BPIFSB was not a mortgagee in good faith. First, the trial court found that the Sps. Dalomias were both deceased at the time the deed of donation was signed and executed on August 30, 2004. Hence, TCT No. 266610 transferred in the name of Sps. Escandor and obtained by means of a fictitious deed of donation, was a nullity. Second, the trial court found that BPIFSB failed to exercise due diligence in granting the loan application of Sps. Escandor and hastily approved the Mortgage Loan Agreement dated July 15, 2004, because it should have discovered the irregularities in the supporting documents submitted by the Sps. Escandor, i.e., the short period of one (1) day covering the execution of the deed of donation on August 30, 2004 and the issuance of TCT No. 266610 on August 31, 2004; the dubious and unauthenticated photocopies of Income Tax Returns for 2002, 2003 and 2004 – which turned out to be fake per verification with the Bureau of Internal Revenue (BIR); and the absence of proof showing Sps. Escandor's capacity to pay and credit-worthiness. Lastly, the trial court held that BPIFSB was negligent in embarking on unsound and unsafe banking practices and in simply relying on the TCT to determine the real status of the subject property. However, while the trial court held that the mortgage agreement between BPIFSB and Sps. Escandor was not valid, the latter was still liable to pay the loan of P3,300,000.00 plus interest.

On February 17, 2012, defendant-appellant BPIFSB filed a notice of appeal.^[18] In this appeal, defendant-appellant assigns the following errors to the trial court: