



Republic of the Philippines  
Supreme Court  
Manila

THIRD DIVISION

LAND BANK  
PHILIPPINES,

OF THE

G.R. No. 205271

Petitioner,

Present:

VELASCO, JR., J., *Chairperson*,  
PERALTA,  
VILLARAMA, JR.  
PEREZ,\* and  
JARDELEZA, JJ.

- versus -

BELLE CORPORATION,

Respondent.

Promulgated:

September 2, 2015

X-----*[Signature]*-----X

DECISION

PERALTA, J.:

This petition for review on *certiorari* under Rule 45 of the 1997 Rules of Civil Procedure (*Rules*) seeks to reverse the November 23, 2011 Decision<sup>1</sup> and January 17, 2013 Resolution<sup>2</sup> of the Court of Appeals (*CA*) in CA-G.R. CV No. 84075, which annulled and set aside the April 12, 2004 Decision<sup>3</sup> of the Regional Trial Court (*RTC*), Branch 18, Tagaytay City, Cavite, in Civil Case No. TG-1672.

Respondent Belle Corporation (*respondent*) is a publicly-listed company primarily engaged in the development and operation of several

\* Designated Acting Member in lieu of Associate Justice Bienvenido L. Reyes, per Special Order No. 2112 dated July 16, 2015.

<sup>1</sup> Penned by Associate Justice Rodil V. Zalameda, with Associate Justices Rebecca De Guia-Salvador and Normandie B. Pizarro concurring; *rollo*, pp. 34-66.

<sup>2</sup> *Rollo*, pp. 67-71.

<sup>3</sup> Penned by Assisting Judge Reuben P. Dela Cruz, *rollo*, pp. 72-104.

leisure and recreational projects in Tagaytay City, Cavite, such as the Tagaytay Highlands. On November 20, 1996, it filed a Complaint, docketed as Civil Case No. TG-1672, for quieting of title and damages with prayer for temporary restraining order and/or preliminary mandatory injunction against Florosa A. Bautista (*Bautista*) and the Register of Deeds of Tagaytay City.<sup>4</sup> Allegedly, respondent is the registered owner in possession of four (4) parcels of land known as Lots 1 to 4 of the consolidation and subdivision plan Pcs-04-010666 containing an aggregate area of 317,918 square meters, located at Barangay Sungay, Tagaytay City, under Transfer Certificate of Title (*TCT*) Nos. P-1863 to P-1866. On October 31, 1996, it received a demand letter<sup>5</sup> from Bautista's counsel which ordered the immediate stoppage of its occupation and use of a substantial portion of the land that she purportedly owns. She claimed that respondent had illegally constructed a road on said property without her prior notice or permission. Before a response could be sent, Bautista caused the posting of a signboard on the entrance access road to Tagaytay Highlands International Golf Club and the Country Club of Tagaytay Highlands, notifying the public as follows:

Please be informed that based on a geodetic re-survey a substantial portion of this entrance road leading to Tagaytay Highlands was found to be inside the perimeter of a private property covered by TCT No. P-671.

Effective November 1, 1996, the registered owner of TCT No. P-671 will enforce her rights and entry and/or exit to her property without her prior consent and approval will be strictly prohibited.<sup>6</sup>

A copy of TCT No. P-671 showed that it emanated from Original Certificate of Title (*OCT*) No. OP-283 which, in turn, appears to have been issued pursuant to Free Patent No. (IV-4) 12573 on January 20, 1977 and registered on February 4, 1977.<sup>7</sup> Respondent thus sought to cancel the free patent for being null and void, constituting a cloud on its own title.

To support its cause, respondent averred that its title over a portion of the subject lot was originally registered as early as March 30, 1959 in the name of Tagaytay Development Company and Patricia S. Montemayor under OCT No. O-216, pursuant to Decree No. N-70245 issued on November 12, 1958 in Land Registration Case No. 426 (LRC Record No. 52607).<sup>8</sup> By reason of Montemayor's death, OCT No. O-216 was cancelled by TCT No. T-2770, which was registered on September 21, 1960 in favor of Tagaytay Development Company and the heirs of Montemayor.<sup>9</sup> The land covered by TCT. No. T-2770 was thereafter partitioned and subdivided into

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<sup>4</sup> Records, pp. 1-10.

<sup>5</sup> *Id.* at 284-D.

<sup>6</sup> *Id.* at 284-E.

<sup>7</sup> *Id.* at 282-283, 498, 552-556.

<sup>8</sup> *Id.* at 256-257.

<sup>9</sup> *Id.* at 258-259.

five lots, two of which, Lot Nos. 1-C and 2-B of the subdivision plan (LRC) Psd-9174, were assigned to Tagaytay Development Company in whose name TCT T-2773 was registered on September 27, 1960.<sup>10</sup> Then, on July 12, 1991, TCT No. T-24616 cancelled and replaced TCT T-2773 in the name of Tagaytay Highlands Corporation.<sup>11</sup> From 1989 to 1991, respondent began purchasing lands adjoining the property for its various development projects in the area. To gain access to these properties, it constructed an eight-meter wide road, the entrance to which passes through a portion of the property. On November 29, 1993, Tagaytay Highlands Corporation and respondent merged, with the latter as the surviving corporation.<sup>12</sup> In July 1995, Lot Nos. 1-C and 2-B covered by TCT No. T-24616 were consolidated with Lots 1 and 2 (Psu- 109694) covered by TCT No. P-578.<sup>13</sup> After, the consolidated parcels of land were subdivided into five lots under consolidation and subdivision plan Pcs-04-010666. In view of this, TCT Nos. T-24616 and P-578 were cancelled and replaced by TCT Nos. P-1863 to P-1867, which were registered on December 12, 1995.<sup>14</sup>

On May 5, 1997, Bautista filed an Answer with Compulsory Counterclaims and Opposition to the Prayer for Issuance of Preliminary Mandatory Injunction.<sup>15</sup> She countered that respondent should be bound and strictly comply with the verification survey of the Department of Environment and Natural Resources (*DENR*) Regional Office No. IV, which was conducted pursuant to the parties' Joint Request for Verification Survey dated January 20, 1997.<sup>16</sup> The survey concluded that, if the dates of original registration are to be considered as frame of reference, it is respondent's title which actually overlapped with Bautista's property.<sup>17</sup> Specifically, Lot 1 of Pcs-04-010666 under TCT No. P-1863 extended beyond Lot 4123-B of Psd-04-051856 under TCT No. P-671. Likewise, Bautista claimed that as shown on the face of TCT No. P-1863 said title originated not from OCT No. O-216 but from OCT No. OP-287 pursuant to a Free Patent issued in the name of Paz M. Del Rosario, which was granted by the President of the Philippines on January 27, 1977 and registered on February 14, 1977.

Trial on the merits ensued. During the presentation of evidence by the defense, respondent was informed that Bautista is no longer the owner of the property covered by TCT No. P-671 as it was already foreclosed by petitioner Land Bank of the Philippines; that TCT No. P-3663 was issued in the bank's name; and, that the notice of *lis pendens* annotated in TCT No. P-671 was not carried over to the new title.

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<sup>10</sup> *Id.* at 260-261.

<sup>11</sup> *Id.* at 262-263.

<sup>12</sup> *Id.* at 287.

<sup>13</sup> *Id.* at 266-267.

<sup>14</sup> *Id.* at 233-242.

<sup>15</sup> *Id.* at 71-81.

<sup>16</sup> *Id.* at 284-H to K, 499-502.

<sup>17</sup> *Id.* at 284-I, 499.

On June 21, 2001, respondent filed a Motion for Leave to File Amended Petition<sup>18</sup> impleading petitioner as indispensable party. Allegedly, on August 19, 1994, Bautista mortgaged to petitioner the land covered by TCT No. P-671 in order to secure a loan amounting to ₱10,000,000.00. Bautista defaulted in her obligation resulting in the foreclosure of the property on October 15, 1997, with respect to which respondent was not aware or notified. Upon Bautista's failure to redeem the property and petitioner's consolidation of ownership, TCT No. P-671 was cancelled and TCT No. P-3663 was registered on June 9, 1999.

The trial court granted respondent's motion.<sup>19</sup> Upon receiving the summons, petitioner filed an Answer (With Special and Affirmative Defenses, Compulsory Counterclaim, Cross Claim and Opposition to Injunction).<sup>20</sup> Later, an Amended Answer was filed to include a Third Party Complaint against Liezel's Garments, Inc., represented by its President and General Manager Dolores E. Bautista.<sup>21</sup>

Claiming that it is an innocent mortgagee for value, petitioner asserted that it observed due diligence and prudence expected of it as a banking institution. It pointed out that prior to the approval of the loan application, its representative verified the status of the collateral covered by TCT No. P-671, which revealed that the subject property was registered in the name of Bautista and that the same is free and clear of any lien or encumbrance. Also, upon ocular inspection, no adverse ownership or interest was found. Therefore, in the absence of anything to excite or arouse suspicion, petitioner is legally justified to rely on the mortgagor and what appears on the face of her certificate of title.

By way of Crossclaim, petitioner alleged that when Bautista sought to mortgage the subject property, its representatives were made to believe that no other person/s has/have an interest thereon and that she has a clean and valid title thereto; and that without such representation, petitioner would not have allowed or consented to the mortgage. Thus, in the event that the trial court holds that respondent has a sufficient cause of action, Bautista should be directed to pay the sum of ₱16,327,991.40 representing unpaid principal, interests, penalties, other charges, and any and all damages which may be suffered as a consequence.

Lastly, to support its Third Party Complaint, petitioner contended that Liezel's Garments, Inc. should be made to pay its outstanding obligation of ₱16,327,991.40, pursuant to the Omnibus Credit Line Agreement dated

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<sup>18</sup> *Id.* at 342-356.

<sup>19</sup> *Id.* at 401.

<sup>20</sup> *Id.* at 412-418.

<sup>21</sup> *Id.* at 427-435.

August 16, 1994 and August 30, 1995,<sup>22</sup> both of which were secured by a real estate mortgage<sup>23</sup> involving the disputed property. As evidence of the availments/releases made, it allegedly executed in favor of petitioner promissory notes amounting to ₱7,672,091.11 and ₱3,000,000.00 on June 30, 1995 and September 30, 1995, respectively.<sup>24</sup>

In response, Liezel's Garments, Inc. filed an Answer (To the Third Party Complaint).<sup>25</sup> It stressed that the subject property is free from all forms of liens and encumbrances when the mortgage contract was executed with petitioner, since Bautista was then its absolute and lawful owner with a clean and valid title. It reiterated petitioner's position that there is nothing from Bautista's title which could arouse suspicion and, by reason thereof, the bank has no obligation to look beyond what appears on the face of the certificate of title.

After trial, the RTC ruled against respondent. The dispositive portion of the April 12, 2004 Decision ordered:

WHEREFORE, premises considered[,] the TCT No. P-1863 issued to petitioner Belle Corporation is hereby declared **VOID**, in so far as the 7,693 square meters that overlapped the property owned by private respondent Florosa A. Bautista, covered with TCT No. T-671. Therefore, the Register of Deeds of Tagaytay City is ordered to **CANCEL** the said TCT No. P-1863 issued to Belle Corporation and to issue another one to petitioner deleting that overlapping portions of 7,693 square meter described in the technical descriptions submitted to that effect which is already a part and parcel of that land covered by Florosa A. Bautista under TCT No. T-671.

No cost.

SO ORDERED.<sup>26</sup>

The trial court relied on the testimony of Engr. Robert C. Pangyarihan, who, in conducting the DENR verification survey, based his findings on what appeared to be the dates of registration of the mother titles of the contending parties. It held that the land belonging to respondent, which is covered by TCT No. P-1863 and originally registered on February 14, 1977, overlapped the land belonging to Bautista, which is covered by TCT No. T-671 and originally registered on February 4, 1977. And since the title of Bautista was issued earlier than that of respondent, the 7,693 sq. m.

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<sup>22</sup> *Id.* at 541-544, 547-551.

<sup>23</sup> *Id.* at 545-546.

<sup>24</sup> *Id.* at 448-451.

<sup>25</sup> *Id.* at 459-462.

<sup>26</sup> *Rollo*, pp. 103-104.

overlapping portion was already private property and ceased to be part of the public domain.

Upon appeal by respondent, the RTC Decision was annulled and set aside. The *fallo* of the CA Decision dated November 23, 2011 stated:

**WHEREFORE**, premises considered, the instant Appeal is **GRANTED**. The assailed Decision of the court *a quo* is hereby **ANNULLED AND SET ASIDE** and a new one entered declaring –

1. petitioner-appellant Belle Corporation as the legitimate owner of the disputed property; and
2. void Ab Initio Transfer Certificate of Title No. P-671 issued to respondent-appellee Bautista and the derivative Transfer Certificate of Title No. P-3663 issued to respondent-appellee Land Bank of the Philippines.

Furthermore, this Court is ordering –

1. the Register of Deeds of Tagaytay City to cancel the respective Certificates of Title of respondent-appellee Florosa A. Bautista and respondent-appellee Land Bank of the Philippines;
2. the Register of Deeds of Tagaytay City to correct the entries contained in the Transfer Certificate of Title No. P-1863 of petitioner-appellant Belle Corporation pertinent to this case;
3. respondent-appellee Florosa A. Bautista and Third Party Defendant Liezel's Garments, Inc. to jointly pay respondent-appellee Land Bank of the Philippines the amount of Sixteen Million Three Hundred Twenty Seven Thousand Nine Hundred Ninety-One Pesos and 40/100 (₱16,327,991.40), the amount for which the disputed property was sold to respondent-appellee Land Bank of the Philippines at the public auction[;] [and]
4. Respondents-appellees Florosa A. Bautista and Land Bank to jointly and severally pay petitioner-appellant Belle Corporation the amount of One Hundred Thousand Pesos (₱100,000.00) by way of attorney's fees.

All other claims are denied for lack of merit.

**SO ORDERED.**<sup>27</sup>

Based on the testimonies of Reynaldo Dy-Reyes, who is from the Register of Deeds of Tagaytay City, and Engr. Pangyarihan, the CA opined that respondent was able to prove by sufficient evidence that its mother title

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<sup>27</sup> *Id.* at 64-65. (Emphasis in the original)

is OCT No. O-216 and not OCT No. OP-287, as erroneously written in TCT Nos. P-1863 to P-1867. Notably, the lot covered by OCT No. OP-287 and its derivative title, TCT No. P-578, which is the purported immediate source of TCT No. P-1863, only contains an area of 92,539 sq. m. compared with the 313,951 sq. m. area covered by TCT No. P-1863. It was further pointed out that, contrary to the stubborn insistence of Bautista, there is no proof showing that respondent expressly waived its right to contest the result of the verification survey conducted by the DENR regional office. For the appellate court, the parties only wanted to establish the fact of encroachment when they commissioned Engr. Pangyarihan to conduct the survey, and that if they intended to be bound by his declaration, they would have made an express agreement to that effect.

The CA did not find merit in the contention that petitioner is a mortgagee in good faith. It noted that not once did the bank claim that it investigated the status of the subject property despite the fact that the same forms part of the ingress and egress of the well-known Tagaytay Highlands since 1990 or several years before it accepted the property as collateral from Bautista. Since its negligence was the primary, immediate and overriding reason, petitioner must bear the loss of the disputed property. Nonetheless, this is without prejudice to the recovery of ₱16,327,991.40 from Bautista and Liezel's Garments, Inc., who both did not refute the said amount.

Finally, while denying respondent's prayer for actual and moral damages, the CA granted its claim for attorney's fees "*given that this case has already dragged on for years and [respondent] has obviously spent a considerable amount of money to protect its interest in this case.*"

On January 17, 2013, the CA resolved to deny petitioner's motion for reconsideration. For the purpose of clarity, however, it modified the November 23, 2011 Decision to read:

**WHEREFORE**, premises considered, the instant Appeal is **GRANTED**. The assailed Decision of the court *a quo* is hereby **ANNULLED AND SET ASIDE** and a new one entered declaring –

1. petitioner-appellant Belle Corporation as the legitimate owner of the disputed property; and
2. void Ab Initio Transfer Certificate of Title No. P-671 issued to respondent-appellee Bautista and the derivative Transfer Certificate of Title No. P-3663 issued to respondent-appellee Land Bank of the Philippines, *insofar as the seven thousand six hundred ninety-three square meter (7,693 sq. m.) portion thereof which overlapped the land of petitioner-appellant Belle Corporation.*

Furthermore, this Court is ordering –

1. the Register of Deeds of Tagaytay City to cancel the respective Certificates of Title of respondent-appellee Florosa A. Bautista and respondent-appellee Land Bank of the Philippines *and issue new ones to reflect the actual measurement of the lot registered under Transfer Certificate of Title No. P-671 (and its derivative title, Transfer Certificate of Title No. P-3663 after deducting the seven thousand six hundred ninety-three square meter (7,693 sq. m.) portion thereof which overlapped the land of petitioner-appellant Belle Corporation;*
2. the Register of Deeds of Tagaytay City to correct the entries contained in the Transfer Certificate of Title No. P-1863 *of* petitioner-appellant Belle Corporation pertinent to this case;
3. respondent-appellee Florosa A. Bautista and Third Party Defendant Liezel's Garments, Inc. to jointly pay respondent-appellee Landbank of the Philippines the amount of Sixteen Million Three Hundred Twenty Seven Thousand Nine Hundred Ninety-One Pesos and 40/100 (₱16,327,991.40), the amount for which the disputed property was sold to respondent-appellee Landbank of the Philippines at the public auction[;] [and]
4. Respondents-appellees Florosa A. Bautista and Landbank to jointly and severally pay petitioner-appellant Belle Corporation the amount of One Hundred Thousand Pesos (₱100,000.00) by way of attorney's fees.

All other claims are denied for lack of merit.

**SO ORDERED.**<sup>28</sup>

Hence, this petition which raises the following issues:

A.

WHETHER OR NOT THE HONORABLE COURT OF APPEALS SERIOUSLY ERRED IN HOLDING THAT BELLE CORPORATION IS NOT BOUND BY THE FINDINGS AND CONCLUSIONS OF THE EXPERT WITNESS WHO WAS COMMISSIONED (BY BELLE CORPORATION AND BAUTISTA) TO CONDUCT A JOINT VERIFICATION SURVEY OF THE DISPUTED PROPERTY.

B.

WHETHER OR NOT THE HONORABLE COURT OF APPEALS COMMITTED REVERSIBLE ERROR WHEN IT FAILED TO APPLY SECTION 44, RULE 130 OF THE RULES OF COURT (ENTRIES IN OFFICIAL RECORDS) ON THE TITLE COVERING THE DISPUTED PROPERTY.

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<sup>28</sup>

*Id.* at 70-71. (Emphasis ours)



## C.

WHETHER OR NOT THE HONORABLE COURT OF APPEALS SERIOUSLY ERRED IN FINDING THAT LAND BANK IS NOT A MORTGAGEE IN GOOD FAITH.

## D.

WHETHER OR NOT THE HONORABLE COURT OF APPEALS CORRECTLY APPLIED THE LAW WHEN IT AWARDED ATTORNEY'S FEES TO THE RESPONDENT.<sup>29</sup>

The petition is unmeritorious.

We agree with respondent that the entries written in TCT No. T-1863 to T-1867 failed to accurately record the origin of said titles. Having depended on erroneous entries stated on the face of said titles, the result of the verification survey issued by Engr. Pangyarihan is, as a consequence, a mistake insofar as it states which between TCT No. T-1863 and TCT No. P-671 has precedence.

During the course of the trial, the testimonies of witnesses<sup>30</sup> and the certificates of title admitted in evidence established that the origin of respondent's title over the parcels of land covered by TCT Nos. P-1863 to 1867 could be traced back from OCT Nos. O-216 and 55 and not OCT No. OP-287 as petitioner repeatedly argues.

OCT No. O-216 was registered on March 30, 1959 in the name of Tagaytay Development Company and Patricia S. Montemayor. It covered a 473,782 sq. m. parcels of land particularly designated as Lot Nos. 1 and 2, plan Psu-103653-Amd.-2 Swo-29594, L.R. Case No. 426, L.R.C. Record No. 52607. By reason of Montemayor's death, OCT No. O-216 was later cancelled by TCT No. T-2770, which was registered on September 21, 1960 in favor of Tagaytay Development Co., Santiago B. Montemayor, and Angelina M. Samson.<sup>31</sup> Thereafter, the land covered by TCT. No. T-2770 was partitioned and subdivided into five lots in connection with the plan (LRC) Psd-9174.<sup>32</sup> Two lots, particularly Lot Nos. 1-C and 2-B of the subdivision plan (LRC) Psd-9174, being portions of Lot 1, Psu-103653-Amd., Swo-29594, LRC Record No. 52607, with a total area of 231,891 sq. m. were assigned to Tagaytay Development Company in whose name TCT T-2773 was registered on September 27, 1960.<sup>33</sup> Cancelling TCT T-2773

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<sup>29</sup> *Id.* at 18.

<sup>30</sup> Engr. Rogelio Robang (Technical Assistant to the President of respondent), Reynaldo Dy-Reyes (Land Registration Examiner of the Register of Deeds of Tagaytay City) and Engr. Robert C. Pangyarihan (Chief of the Surveys Division-Land Management Sector of DENR Region IV).

<sup>31</sup> Records, p. 256 (back page).

<sup>32</sup> *Id.* at 257.

<sup>33</sup> *Id.* at 259.

was TCT No. T-24616, which was registered on July 12, 1991 in the name of Tagaytay Highlands Corporation.<sup>34</sup>

On the other hand, OCT No. 55 was in the name of Hammon H. Buck, married to Mary B. Norman pursuant to Decree No. 753837 registered on July 31, 1941.<sup>35</sup> It included, among others, Lot Nos. 1 and 2 of plan Psu-109694 which have a combined land area of 93,268 sq. m.<sup>36</sup> OCT No. 55 was cancelled with the registration of TCT No. RT-192 (202) on September 22, 1941 in the name of Tagaytay Development Company.<sup>37</sup> Later, on July 12, 1991, TCT No. RT-192 (202) was cancelled and, in lieu thereof, TCT T-24614 was registered in favor of Tagaytay Highlands Corporation.<sup>38</sup> The properties described in the certificate were thereafter consolidated with the properties mentioned in TCT No. T-26415 and then subdivided into 14 lots.<sup>39</sup> Consequently, TCT No. TCT T-24614 was cancelled and TCT Nos. T-29566 to T-29579 were registered on September 19, 1994.<sup>40</sup>

Per Entry No. 60717/24616 of TCT No. T-24616,<sup>41</sup> it was indicated that said title was cancelled by TCT Nos. T-31615 to T-31617. This should not be so since TCT Nos. T-31615 to T-31617 pertain to Lots 4088-A to 4088-C, respectively, of the subdivision plan Psd-04-080540, being portions of Lot 4088, Cad-355, with a total land area of 92,539 sq. m.<sup>42</sup> What should have been recorded instead is that TCT Nos. T-31615 to T-31617 are derived from TCT P-578, which was technically described as Lot 4088, Cad-355 covering exactly the same land area. TCT P-578 originated from OCT OP-287 pursuant to Free Patent No. 579975 issued on January 27, 1977 in favor of Paz M. Del Rosario and registered on February 14, 1977. Likewise erroneous is the notation<sup>43</sup> in TCT P-578 that it was cancelled by virtue of the issuance of TCT Nos. P-1863 to P-1867. Conspicuously, TCT Nos. P-1863 to P-1867 cover lots with total land area of 325,159 sq. m.<sup>44</sup> Thus, there is merit to respondent's stand that the Register of Deeds mistakenly mixed-up the entries on the title source of TCT Nos. T-31615 to T-31617, on one hand, and TCT Nos. P-1863 to P-1867, on the other, since these titles were simultaneously registered on December 12, 1995 at 10:45 a.m.

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<sup>34</sup> *Id.* at 261.

<sup>35</sup> *Id.* at 271-272.

<sup>36</sup> *Id.* at 274.

<sup>37</sup> *Id.* at 275-277.

<sup>38</sup> *Id.* at 278-280.

<sup>39</sup> *Id.* at 280.

<sup>40</sup> *Id.*

<sup>41</sup> *Id.* at 263.

<sup>42</sup> *Id.* at 268-270.

<sup>43</sup> *Id.* at 267.

<sup>44</sup> The land areas of TCT Nos. P-1863 to P-1867 are 313,951 sq. m., 1,465 sq. m. 124 sq. m., 2,378 sq. m., and 7,241 sq. m., respectively.

TCT Nos. P-1863 to P-1867 cover Lots 1 to 5, respectively, of the consolidation and subdivision plan Pcs-04-010666.<sup>45</sup> As shown by the plan, Lots 1-C and 1-B (LRC) Psd 9174 and Lots 1 and 2, Psu-109694 were consolidated and subdivided to form the parcels of land covered by TCT Nos. P-1863 to 1867. Lots 1-C and 1-B (LRC) Psd 9174 and Lot 1 and 2 Psu-109694 have an area of 231,891 sq. m. and 93,268 sq. m., respectively. The sum of both is 325,159 sq. m., which is total area being covered by TCT Nos. P-1863 to P-1867.

Undoubtedly, the origins of TCT Nos. P-1863 to P-1867 are OCT Nos. O-216 and 55. Whether the 7,693 sq. m. overlapping portion is actually located in Lots 1-C and 1-B (LRC) Psd 9174 or in Lots 1 and 2, Psu-109694 is no longer material. Either way, respondent's title over such portion must prevail since OCT No. O-216 and OCT No. 55 were registered on March 30, 1959 and July 31, 1941, respectively. In comparison, OCT No. OP-283, which is the mother title of TCT No. P-671 in the name of Bautista, was registered much later on February 4, 1977.

Having finally settled that respondent is the rightful owner of the contested 7,693 sq. m. portion of the lot covered by TCT No. P-1863, We now resolve the issue of whether petitioner is a mortgagee in good faith and for value.

According to petitioner, prior to the approval of the loan application of Liezel's Garments, Inc., the subject property was duly verified as free from any lien or encumbrance. As a matter of course, the same was inspected for purposes of collateral valuation. An ocular inspection revealed that there was no person in possession of the same prior to the granting of the loan. It could not have known or suspected that there was another person claiming the property since the disputed property was accepted as collateral in August 1994, or before the filing of the case in November 1996, and, by then, there was no annotation of adverse claim inscribed on the title. Moreover, the overlapped portion is not the same as an encumbrance that would render the inclusion thereof in the real estate mortgage between Bautista and petitioner null and void.

Like the CA, We rule for respondent.

In general, the issue of whether a mortgagee is in good faith cannot be entertained in a Rule 45 petition. This is because the ascertainment of good faith or the lack thereof, and the determination of negligence are factual

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<sup>45</sup> Records, p. 284.

matters which lay outside the scope of a petition for review on *certiorari*.<sup>46</sup> Good faith, or the lack of it, is a question of intention. In ascertaining intention, courts are necessarily controlled by the evidence as to the conduct and outward acts by which alone the inward motive may, with safety, be determined.<sup>47</sup> Considering that the RTC was silent on the matter while the CA ruled against petitioner, this Court shall make its own determination.

When the purchaser or the mortgagee is a bank, the rule on innocent purchasers or mortgagees for value is applied more strictly.<sup>48</sup> Being in the business of extending loans secured by real estate mortgage, banks are presumed to be familiar with the rules on land registration.<sup>49</sup> Since the banking business is impressed with public interest, they are expected to be more cautious, to exercise a higher degree of diligence, care and prudence, than private individuals in their dealings, even those involving registered lands.<sup>50</sup> Banks may not simply rely on the face of the certificate of title.<sup>51</sup> Hence, they cannot assume that, simply because the title offered as security is on its face free of any encumbrances or lien, they are relieved of the responsibility of taking further steps to verify the title and inspect the properties to be mortgaged.<sup>52</sup> As expected, the ascertainment of the status or condition of a property offered to it as security for a loan must be a standard and indispensable part of a bank's operations.<sup>53</sup> It is of judicial notice that the standard practice for banks before approving a loan is to send its representatives to the property offered as collateral to assess its actual condition, verify the genuineness of the title, and investigate who is/are its real owner/s and actual possessors.<sup>54</sup>

It the instant case, petitioner readily admitted that during the appraisal and inspection of the property on January 11, 1994 it duly noted the observation that the subject property was traversed by an access road leading to the Tagaytay Highlands Golf Course. However, it concluded, albeit erroneously, that the access road is still a part of TCT No. P-671 because its existence cannot be established despite verifications conducted by its property appraisers with the DENR's Land Management Section – Region

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<sup>46</sup> *Arguelles v. Malarayat Rural Bank, Inc.*, G.R. No. 200468, March 19, 2014, 719 SCRA 563, 571 and *Land Bank of the Philippines v. Poblete*, G.R. No. 196577, February 25, 2013, 691 SCRA 613, 625.

<sup>47</sup> *Land Bank of the Philippines v. Poblete*, *supra*, at 626.

<sup>48</sup> *Heirs of Gregorio Lopez v. Development Bank of the Philippines*, G.R. No. 193551, November 19, 2014.

<sup>49</sup> *Erasusta, Jr. v. Court of Appeals*, 527 Phil. 639, 652 (2006).

<sup>50</sup> *Heirs of Gregorio Lopez v. Development Bank of the Philippines*, G.R. No. 193551, November 19, 2014; *Arguelles v. Malarayat Rural Bank, Inc.*, *supra* note 46, at 573; and *PNB v. Corpuz*, 626 Phil. 410, 413 (2010).

<sup>51</sup> *Heirs of Gregorio Lopez v. Development Bank of the Philippines*, G.R. No. 193551, November 19, 2014.

<sup>52</sup> *Land Bank of the Philippines v. Poblete*, *supra* note 46, at 626.

<sup>53</sup> *Philippine Amanah Bank (now Al-Amanah Islamic Investment Bank of the Philippines, also known as Islamic Bank) v. Contreras*, G.R. No. 173168, September 29, 2014, 736 SCRA 567, 580.

<sup>54</sup> *Land Bank of the Philippines v. Poblete*, *supra* note 46, at 627; *Alano v. Planter's Development Bank*, 667 Phil. 81, 89-90 (2011); *Philippine National Bank v. Corpuz*, 626 Phil. 410, 413 (2010); *Erasusta, Jr. v. Court of Appeals*, 527 Phil. 639, 651 (2006); and *PNB v. Heirs of Militar*, 504 Phil. 634, 644 (2005).

IV and Tax Mapping Section of the Tagaytay City Assessor's Office due to lack of records of any survey plan delineating the portion occupied by the said road from the subject property."<sup>55</sup>

A person who deliberately ignores a significant fact that could create suspicion in an otherwise reasonable person is not a mortgagee in good faith. A mortgagee cannot close his eyes to facts which should put a reasonable man on his guard and claim that he acted in good faith under the belief that there was no defect in the title of the mortgagor. His mere refusal to believe that such defect exists or the willful closing of his eyes to the possibility of the existence of a defect in the mortgagor's title will not make him an innocent mortgagee for value if it afterwards develops that the title was in fact defective, and it appears that he had such notice of the defect as would have led to its discovery had he acted with that measure of precaution which may reasonably be required of a prudent man in a like situation.

Here, the facts show that petitioner disregarded circumstances that should have aroused its suspicion. After encountering a dead end in the DENR's Land Management Section – Region IV and the Tax Mapping Section of the Tagaytay City Assessor's Office, it manifestly failed to inquire further on the identity of possible adverse claimants and the status of their occupancy. Had petitioner earnestly probed, by simply talking to Bautista or asking the possessors/owners of adjacent lots as regards the presence of the traversing access road, it could have easily discovered the opposing claim of respondent, which is a known real estate developer in the area. Indeed, failing to make such inquiry would hardly be consistent with any pretense of good faith. Given the suspicious-provoking presence of the concrete road on the mortgaged lot, it behooved petitioner to conduct a more exhaustive investigation on the history of Bautista's title. The acceptance of the mortgaged property, notwithstanding the existence of an actual and visible improvement thereon constitutes gross negligence amounting to bad faith.<sup>56</sup> Where the mortgagee acted with haste in granting the mortgage loan and did not ascertain the ownership of the land being mortgaged it cannot be considered an innocent mortgagee.<sup>57</sup>

Granting, for the sake of argument, that petitioner is a mortgagee in good faith, still it cannot be said that it is an innocent purchaser for value.

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.

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<sup>55</sup> CA rollo, p. 208.

<sup>56</sup> *Erasusta, Jr. v. Court of Appeals*, *supra* note 54.

<sup>57</sup> See *Arguelles v. Malarayat Rural Bank, Inc.*, *supra* note 46, at 576, citing *Land Bank of the Philippines v. Poblete*, *supra* note 46, at 628.

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*, 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.<sup>58</sup>

Even if there was yet no annotated notice of *lis pendens* at the time the lot covered by TCT P-671 was mortgaged, such notice already existed when petitioner purchased the lot during the foreclosure sale. The notice of *lis pendens* was inscribed on TCT P-671 on November 20, 1996, the same day when Civil Case No. TG-1672 was filed, while the public auction was held on September 10, 1997.<sup>59</sup>

The foregoing considered, by reason of its bad faith, there is no merit on petitioner's conviction that attorney's fee cannot be recovered as cost in this case.

One important matter, however. It cannot escape Our notice that the CA ordered Bautista and Liezel's Garments, Inc. to *jointly* pay petitioner ₱16,327,991.40, the amount for which the disputed property was sold to petitioner at public auction. Only the bank filed a petition for review before Us, which, as expected, did not raise the issue of propriety of such order. This notwithstanding, We deem it proper to rectify the directive. The Supreme Court is clothed with ample authority to review an issue, even not

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<sup>58</sup> *Homeowners Savings and Loan Bank v. Felonia*, G.R. No. 189477, February 26, 2014, 717 SCRA 358, 367-368.

<sup>59</sup> Records, pp. 555, 560.

assigned as an error on appeal if it finds that its consideration is necessary in arriving at a just decision and complete resolution of the case or to serve the interests of justice.

It must be emphasized that Bautista, who by now may have already turned 87 years old,<sup>60</sup> is considered as a third-party or accommodation mortgagor. She mortgaged her property to stand as security for the indebtedness of Liezel's Garments, Inc. She is not a party to the principal obligation but merely secured the latter by mortgaging her own property. In fact, it was only Dolores E. Bautista, then the President and General Manager of Liezel's Garments, Inc., who was the sole signatory of the Omnibus Credit Line Agreement dated August 16, 1994 and August 30, 1995<sup>61</sup> as well as the promissory note dated June 30, 1995 and September 30, 1995.<sup>62</sup> In *Cerna v. Court of Appeals*,<sup>63</sup> it was held:

There is x x x no legal provision nor jurisprudence in our jurisdiction which makes a third person who secures the fulfillment of another's obligation by mortgaging his own property to be solidarily bound with the principal obligor. x x x. The signatory to the principal contract – loan – remains to be primarily bound. It is only upon the default of the latter that the creditor may have recourse on the mortgagors by foreclosing the mortgaged properties in lieu of an action for the recovery of the amount of the loan. And the liability of the third-party mortgagors extends only to the property mortgaged. Should there be any deficiency, the creditor has recourse on the principal debtor.<sup>64</sup>

Neither petitioner nor Liezel's Garments, Inc. presented proof that Bautista is a director, officer or employee of Liezel's Garments, Inc. Although Bautista acted as such, it is a basic rule that a corporation is a juridical entity which is vested with a legal personality separate and distinct from those acting for and in its behalf and from the people comprising it, who, in general, are not personally liable for obligations incurred by the corporation unless the veil of corporate fiction is pierced to justify that it is used as a means to perpetrate fraud or an illegal act, or as a vehicle for the evasion of an existing obligation, the circumvention of statutes, or to confuse legitimate issues.<sup>65</sup>

**WHEREFORE**, premises considered, the petition is **DENIED**. The November 23, 2011 Decision and January 17, 2013 Resolution of the Court of Appeals in CA-G.R. CV No. 84075, which annulled the April 12, 2004

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<sup>60</sup> See CA *rollo*, p. 245.

<sup>61</sup> Records, pp. 541-544, 547-551.

<sup>62</sup> *Id.* at 448-451.

<sup>63</sup> G.R. No. 48359, March 30, 1993, 220 SCRA 517.

<sup>64</sup> *Cerna v. Court of Appeals*, *supra*, at 522-523, as cited in *Bank of America v. American Realty Corp.*, 378 Phil. 1279, 1291 (1999).

<sup>65</sup> *Heirs of Fe Tan Uy v. International Exchange Bank*, G.R. No. 166282, February 13, 2013, 690 SCRA 519, 525-526.

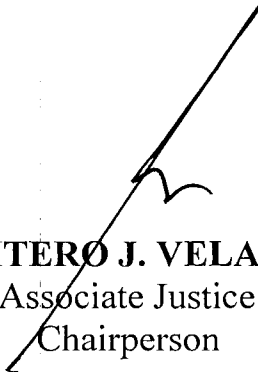
Decision of the Regional Trial Court, Branch 18, Tagaytay City, Cavite, in Civil Case No. TG-1672, are hereby **AFFIRMED WITH MODIFICATION**. Only Liezel's Garments, Inc. is liable to pay petitioner with the amount of ₱16,327,991.40, which represents the sum for which the disputed property was sold to petitioner at public auction.

**SO ORDERED.**



**DIOSDADO M. PERALTA**  
Associate Justice

**WE CONCUR:**



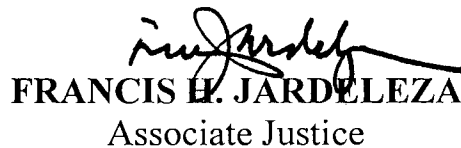
**PRESBITERO J. VELASCO, JR.**  
Associate Justice  
Chairperson



**MARTIN S. VILLARAMA, JR.**  
Associate Justice



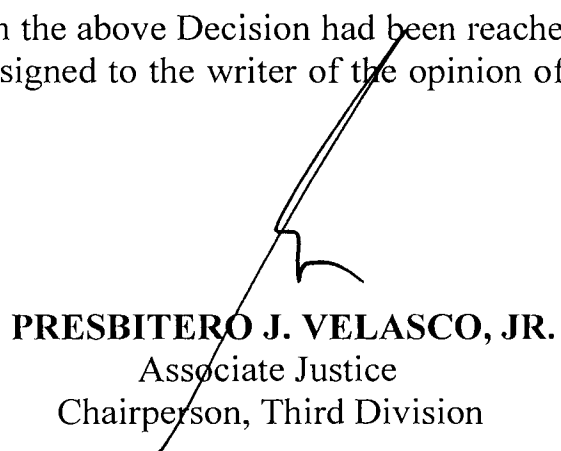
**JOSE PORTUGAL PEREZ**  
Associate Justice



**FRANCIS H. JARDELEZA**  
Associate Justice

**ATTESTATION**

I attest that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.



**PRESBITERO J. VELASCO, JR.**  
Associate Justice  
Chairperson, Third Division



**CERTIFICATION**

Pursuant to Section 13, Article VIII of the Constitution and the Division Chairperson's Attestation, I certify that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.



**MARIA LOURDES P. A. SERENO**  
Chief Justice