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*Wilfredo Legitan*  
WILFREDO LEGITAN  
Division Clerk of Court  
Third Division

SEP 20 2016



Republic of the Philippines  
**Supreme Court**  
Manila

THIRD DIVISION

**PHILIPPINE NATIONAL BANK,**  
Petitioner,

**G.R. No. 213241**

Present:

VELASCO, JR., J.,  
*Chairperson,*

PERALTA,

PEREZ,

REYES, and

JARDELEZA, JJ.

- versus -

Promulgated:

**JUAN F. VILA,**  
Respondent.

**August 1, 2016**

*Wilfredo Legitan*

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**DECISION**

**PEREZ, J.:**

For resolution of the Court is the instant Petition for Review on *Certiorari*<sup>1</sup> filed by petitioner Philippine National Bank (PNB), seeking to reverse and set aside the Decision<sup>2</sup> dated 18 December 2013 and Resolution<sup>3</sup> dated 13 June 2014 of the Court of Appeals (CA) in CA-G.R. CV No. 97612. The assailed decision and resolution affirmed the 22 June 2011 Decision<sup>4</sup> of the Regional Trial Court (RTC) of Villasis, Pangasinan, Branch 50 which found that petitioner PNB is not a mortgagee in good faith.

<sup>1</sup> Rollo, pp. 27-40.

<sup>2</sup> Id. at 41-48; penned by Associate Justice Socorro B. Inting, concurred with Associate Justices Jose C. Reyes, Jr. and Myra V. Garcia-Fernandez.

<sup>3</sup> Id. at 49-50.

<sup>4</sup> Id. at 126-140.

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### The Facts

Petitioner PNB is a universal banking corporation duly authorized by *Bangko Sentral ng Pilipinas (BSP)* to engage in banking business.

Sometime in 1986, Spouses Reynaldo Cornista and Erlinda Gamboa Cornista (Spouses Cornista) obtained a loan from Traders Royal Bank (Traders Bank).<sup>5</sup> To secure the said obligation, the Spouses Cornista mortgaged to the bank a parcel of land with an area of 451 square meters designated as Lot 555-A-2 and registered under Transfer Certificate of Title (TCT) No. 131498 in their names by the Register of Deeds of Pangasinan.

For failure of the Spouses Cornista to make good of their loan obligation after it has become due, Traders Bank foreclosed the mortgage constituted on the security of the loan. After the notice and publication requirements were complied with, the subject property was sold at the public auction on 23 December 1987. During the public sale, respondent Juan F. Vila (Vila) was declared as the highest bidder after he offered to buy the subject property for P50,000.00. The Certificate of Sale dated 13 January 1988 was duly recorded in TCT No. 131498 under **Entry No. 623599**.<sup>6</sup>

To exercise his right of ownership, Vila immediately took possession of the subject property and paid the real estate taxes corresponding thereon.

On 11 February 1989, a Certificate of Final Sale was issued to Vila after the one-year redemption period had passed without the Spouses Cornista exercising their statutory right to redeem the subject property. He was, however, prevented from consolidating the ownership of the property under his name because the owner's copy of the certificate of title was not turned over to him by the Sheriff.

Despite the lapse of the redemption period and the fact of issuance of a Certificate of Final Sale to Vila, the Spouses Cornista were nonetheless allowed to buy back the subject property by tendering the amount of P50,000.00. A Certificate of Redemption<sup>7</sup> dated 14 March 1989 was issued for this purpose and was duly annotated in the title under **Entry No. 708261**.

Claiming that the Spouses Cornista already lost their right to redeem the subject property, Vila filed an action for nullification of redemption,

<sup>5</sup> The amount of the loan obligation was not mentioned in the records.

<sup>6</sup> *Rollo*, p. 80.

<sup>7</sup> *Id.* at 74.

transfer of title and damages against the Spouses Cornista and Alfredo Vega in his capacity as the Register of Deeds of Pangasinan. The case was docketed as *Civil Case No. V-0242* on 10 January 1992 and was raffled to Branch 50. A Notice of *Lis Pendens* was issued for this purpose and was duly recorded in the certificate of title of the property on 19 October 1992 under **Entry No. 759302**.<sup>8</sup>

On 3 February 1995, the RTC rendered a Decision<sup>9</sup> in *Civil Case No. V-0242* in favor of Vila thereby ordering the Register of Deeds to cancel the registration of the certificate of redemption and the annotation thereof on TCT No. 131498. The said decision was affirmed by the CA on 19 October 1997 in *CA-G.R. CV No. 49463*.<sup>10</sup> The decision of the appellate court became final and executory on 19 November 1997.

In order to enforce the favorable decision, Vila filed before the RTC a Motion for the Issuance of Writ of Execution which was granted by the court. Accordingly, a Writ of Execution<sup>11</sup> was issued by the RTC on 14 December 1997.

By unfortunate turn of events, the Sheriff could not successfully enforce the decision because the certificate of title covering the subject property was no longer registered under the names of the Spouses Cornista. Hence, the judgment was returned unsatisfied as shown in Sheriff's Return<sup>12</sup> dated 13 July 1999.

Upon investigation it was found out that during the *interregnum* the Spouses Cornista were able to secure a loan from the PNB in the amount of P532,000.00 using the same property subject of litigation as security. The Real Estate Mortgage (REM) was recorded on 28 September 1992 under **Entry No. 758171**<sup>13</sup> or month before the Notice of *Lis Pendens* was annotated.

Eventually, the Spouses Cornista defaulted in the payment of their loan obligation with the PNB prompting the latter to foreclose the property offered as security. The bank emerged as the highest bidder during the public sale as shown at the Certificate of Sale issued by the Sheriff. As with the prior mortgage, the Spouses Cornista once again failed to exercise their right of redemption within the required period allowing PNB to consolidate

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<sup>8</sup> Id. at 59.

<sup>9</sup> Id. at 82-88.

<sup>10</sup> Id. at 89-95.

<sup>11</sup> Id. at 96-97.

<sup>12</sup> Id. at 98.

<sup>13</sup> Id. at 59.

its ownership over the subject property. Accordingly, TCT No. 131498<sup>14</sup> in the name of the Spouses Cornista was cancelled and a new one under TCT No. 216771<sup>15</sup> under the name of the PNB was issued.

The foregoing turn of events left Vila with no other choice but to commence another round of litigation against the Spouses Cornista and PNB before the RTC of Villasis, Pangasinan, Branch 50. In his Complaint docketed as *Civil Case No. V-0567*, Vila sought for the nullification of TCT No. 216771 issued under the name of PNB and for the payment of damages.

To refute the allegations of Vila, PNB pounded that it was a mortgagee in good faith pointing the fact that at the time the subject property was mortgaged to it, the same was still free from any liens and encumbrances and the Notice of *Lis Pendens* was registered only a month after the REM was annotated on the title. PNB meant to say that at the time of the transaction, the Spouses Cornista were still the absolute owners of the property possessing all the rights to mortgage the same to third persons. PNB also harped on the fact that a close examination of title was conducted and nowhere was it shown that there was any cloud in the title of the Spouses Cornista, the latter having redeemed the property after they have lost it in a foreclosure sale.<sup>16</sup>

After the Pre-Trial Conference, trial on the merits ensued. The court *a quo* then proceeded to receive documentary and testimonial evidence from the opposing parties. Thereafter, the parties submitted their respective memorandum and the case was submitted for decision.

On 22 June 2011, the RTC rendered a Decision<sup>17</sup> in favor of Vila and ruled that PNB is not a mortgagee in good faith. As a financial institution, the trial court held that PNB is expected to observe a higher degree of diligence. In hastily granting the loan, the trial court declared that PNB failed in this regard. Had the bank exercised due diligence, it could have easily discovered that the Spouses Cornista were not the possessors of the subject property which could lead it to the fact that at the time the subject property was mortgaged to it, a litigation involving the same was already commenced before the court. It was further ratiocinated by the RTC that “[a] mortgagee cannot close his eyes to facts which should put a reasonable man upon his guard” in ascertaining the status of a mortgaged property. The dispositive portion of the decision reads:

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<sup>14</sup> Id. at 80.

<sup>15</sup> Id. at 99.

<sup>16</sup> Id. at 100-125.

<sup>17</sup> Id. at 126-140.

“WHEREFORE, judgment is hereby rendered:

1. Declaring the Real Estate Mortgage dated September 28, 1992, executed by the Spouses Reynaldo Cornista and Erlinda Gamboa in favor of the Philippine National Bank, Tayug, Pangasinan Branch, over the parcel of land covered by TCT No. 131498 null and void;
2. Declaring the Deed of Sale dated September 27, 1996, in favor of the PNB null and void;
3. Ordering the nullification and cancellation of Transfer Certificate of Title No. 216771 in the name of PNB;
4. Ordering the Register of Deeds of Pangasinan to issue a new certificate of title covering the property subject matter of this case in the name of Juan F. Vila; and
5. Ordering [the] defendant PNB to pay the plaintiff ₱50,000.00 moral damages, ₱50,000.00 exemplary damages and ₱100,000.00 attorney’s fees and litigation expenses.

Costs against defendant Philippine National Bank.

SO ORDERED.”<sup>18</sup>

In a Resolution<sup>19</sup> dated 13 June 2014, the RTC refused to reconsider its earlier decision and thereby denied the Motion for Reconsideration interposed by PNB.

On appeal, the CA Decision<sup>20</sup> dated 18 December 2013 affirmed the RTC ruling. In failing to exercise greater care and diligence in approving the loan of the Spouses Cornista without first ascertaining if there were any defects in their title, the appellate court held that PNB could not be afforded the status of a mortgagee in good faith. It went further by declaring that “[a] bank whose business is impressed with public interest is expected to exercise more care and prudence in its dealings than a private individual, even in cases involving registered lands. A bank cannot assume that, simply because the title offered as security is on its face free of any encumbrances of lien, it is relieved of the responsibility of taking further steps to verify the title and inspect the properties to be mortgaged.”<sup>21</sup> The CA thus disposed:

“WHEREFORE, the instant appeal is **DENIED**. The assailed Decision dated June 22, 2011 and the Resolution dated August 11, 2011 of

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<sup>18</sup> Id. at 139-140.  
<sup>19</sup> Id. at 49-50.  
<sup>20</sup> Id. at 41-48.  
<sup>21</sup> Id. at 46.

the Regional Trial Court of Villasis, Pangasinan, Branch 50, in Civil Case No, V-0567 are hereby **AFFIRMED**.<sup>22</sup>

On 13 June 2014, the CA issued a Resolution<sup>23</sup> denying the Motion for Reconsideration of the PNB prompting the bank to seek recourse before the Court *via* instant Petition for Review on *Certiorari*. For Our resolution are the following issues:

### The Issues

I.

WHETHER OR NOT PNB IS A MORTGAGEE IN GOOD FAITH;

II.

WHETHER OR NOT PNB IS LIABLE FOR DAMAGES.<sup>24</sup>

### The Court's Ruling

#### We resolve to deny the petition.

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 matters which lay outside the scope of a petition for review on *certiorari*. 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 facts by which alone the inward motive may, with safety, be determined.<sup>25</sup> A recognized exception to the rule is when there are conflicting findings of fact by the CA and the RTC.<sup>26</sup> In the case at bar, RTC and the CA agreed on their findings.

The RTC, which possessed the first hand opportunity to observe the demeanor of the witnesses and admit the documentary evidence, found that PNB accepted outright the collateral offered by the Spouses Cornista without making further inquiry as to the real status of the subject property.

<sup>22</sup> Id. at 48.

<sup>23</sup> Id. at 49-50.

<sup>24</sup> Id. at 32.

<sup>25</sup> *Land Bank of the Philippines v. Belle Corporation*, G.R. No. 205271, 2 September 2015.

<sup>26</sup> *Philippine Banking Corporation v. Dy, et al.*, 698 Phil. 750, 756-757 (2012).

Had the bank been prudent and diligent enough in ascertaining the condition of the property, it could have discovered that the same was in the possession of Vila who, at that time, possessed a colorable title thereon being a holder of a Final Certificate of Sale. The RTC further exposed the frailty of PNB's claim by pointing to the fact that it was Vila who was paying the realty tax on the property, a crucial information that the bank could have easily discovered had it exercised due diligence.

Resonating the findings of the RTC, the CA also declared that PNB fell short in exercising the degree of diligence expected from bank and financial institutions. We hereby quote with approval the disquisition of the appellate court:

Thus, before approving a loan application, it is a standard operating practice for these institutions to conduct an ocular inspection of the property offered for mortgage and to verify the genuineness of the title to determine the real owner thereof. The apparent purpose of an ocular inspection is to protect the "true owner" of the property as well as innocent third parties with a right, interest or claim thereon from a usurper who may have acquired a fraudulent certificate of title thereto. Here, [the] PNB has failed to exercise the requisite due diligence in ascertaining the status and condition of the property being offered to it as security for the loan before it approved the same. xxx.<sup>27</sup>

Clearly, the PNB failed to observe the exacting standards required of banking institutions which are behooved by statutes and jurisprudence to exercise greater care and prudence before entering into a mortgage contract.

No credible proof on the records could substantiate the claim of PNB that a physical inspection of the property was conducted. We agree with both the RTC and CA that if in fact it were true that ocular inspection was conducted, a suspicion could have been raised as to the real status of the property. By failing to uncover a crucial fact that the mortgagors were not the possessors of the subject property, We could not lend credence to the claim of the bank that an ocular inspection of the property was conducted. What further tramples upon PNB's claim is the fact that, as shown on the records, it was Vila who was religiously paying the real property tax due on the property from 1989 to 1996, another significant fact that could have raised a red flag as to the real ownership of the property. The failure of the mortgagee to take precautionary steps would mean negligence on his part and would thereby preclude it from invoking that it is a mortgagee in good faith.

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<sup>27</sup>*Rollo*, p. 46.

Before approving a loan application, it is standard operating procedure for banks and financial institutions to conduct an ocular inspection of the property offered for mortgage and to determine the real owner(s) thereof. The apparent purpose of an ocular inspection is to protect the “true owner” of the property as well as innocent third parties with a right, interest or claim thereon from a usurper who may have acquired a fraudulent certificate of title thereto.<sup>28</sup>

In this case, it was adjudged by the courts of competent jurisdiction in a final and executory decision that the Spouses Cornista’s reacquisition of the property after the lapse of the redemption period is fraudulent and the property used by the mortgagors as collateral rightfully belongs to Vila, an innocent third party with a right, could have been protected if PNB only observed the degree diligence expected from it.

In *Land Bank of the Philippines v. Belle Corporation*,<sup>29</sup> the Court exhorted banks to exercise the highest degree of diligence in its dealing with properties offered as securities for the loan obligation:

When the purchaser or the mortgagee is a bank, the rule on innocent purchasers or mortgagees for value is applied more strictly. Being in the business of extending loans secured by real estate mortgage, banks are presumed to be familiar with the rules on land registration. 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. Banks may not simply rely on the face of the certificate of title. Hence, they cannot assume that, xxx 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. 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 the bank’s operations. xxx. (Citations omitted)

We never fail to stress the remarkable significance of a banking institution to commercial transactions, in particular, and to the country’s economy in general.<sup>30</sup> The banking system is an indispensable institution in the modern world and plays a vital role in the economic life of every civilized nation.<sup>31</sup> Whether as mere passive entities for the safekeeping and saving of money or as active instruments of business and commerce, banks have become an ubiquitous presence among the people, who have come to

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<sup>28</sup> Supra note 26 at 757. .

<sup>29</sup> Supra note 25.

<sup>30</sup> *Bank of Commerce v. Spouses San Pablo*, 550 Phil. 805, 822 (2007).

<sup>31</sup> Id.





regard them with respect and even gratitude and, most of all, confidence.<sup>32</sup> Consequently, the highest degree of diligence is expected, and high standards of integrity and performance are even required, of it.<sup>33</sup>

PNB clearly failed to observe the required degree of caution in readily approving the loan and accepting the collateral offered by the Spouses Cornista without first ascertaining the real ownership of the property. It should not have simply relied on the face of title but went further to physically ascertain the actual condition of the property. That the property offered as security was in the possession of the person other than the one applying for the loan and the taxes were declared not in their names could have raised a suspicion. A person who deliberately ignores a significant fact that could create suspicion in an otherwise reasonable person is not an innocent purchaser for value.<sup>34</sup>


Having laid down that the PNB is not in good faith, We are led to affirm the award of moral damages, exemplary damages, attorney's fees and costs of litigation in favor of Vila. Moral damages are not awarded to penalize the defendant but to compensate the plaintiff for the injuries he may have suffered.<sup>35</sup> Willful injury to property may be a legal ground for awarding moral damages if the court should find that, under the circumstances, such damages are justly due.<sup>36</sup> In the instant case, we find that the award of moral damages is proper.<sup>37</sup> As for the award of exemplary damages, we deem that the same is proper for the PNB was remiss in its obligation to inquire the real status of the subject property, causing damage to Vila.<sup>38</sup> Finally, we rule that the award of attorney's fees and litigation expenses is valid since Vila was compelled to litigate and thus incur expenses in order to protect its rights over the subject property.<sup>39</sup>

**WHEREFORE**, premises considered, the petition is **DENIED**. The assailed Decision and Resolution of the Court of Appeals are hereby **AFFIRMED**. Accordingly, the decision of the RTC dated 22 June 2011 **STANDS** as the final resolution of this case.

**SO ORDERED.**


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<sup>32</sup> Id.  
<sup>33</sup> Id.  
<sup>34</sup> Id. at 822-823.  
<sup>35</sup> Id. at 823.  
<sup>36</sup> Id.  
<sup>37</sup> Id.  
<sup>38</sup> Id.  
<sup>39</sup> Id.

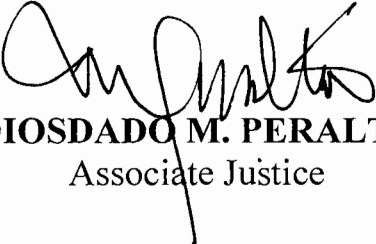


**JOSE PORTUGAL PEREZ**  
Associate Justice

WE CONCUR:




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



**DIOSDADO M. PERALTA**  
Associate Justice



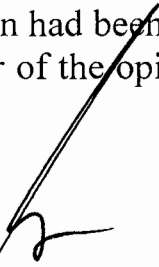
**BIENVENIDO L. REYES**  
Associate Justice



**FRANCIS H. JARDELEZA**  
Associate Justice

**ATTESTATION**

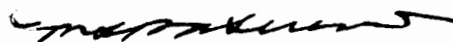
I attest that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.



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

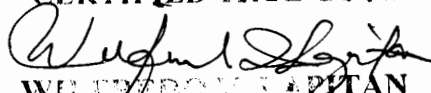
**CERTIFICATION**

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

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**WILFREDO V. CAPITAN**  
Division Clerk of Court  
Tribunal Division

**SEP 20 2016**