



Republic of the Philippines
Supreme Court
Manila

SECOND DIVISION

HEIRS OF PAZ MACALALAD,
namely: MARIETA MACALALAD,
ARLENE MACALALAD-ADAY,
JIMMY MACALALAD, MA.
CRISTINA MACALALAD, NENITA
MACALALAD-PAPA, AND DANNY
MACALALAD,

Petitioners,

- versus -

RURAL BANK OF POLA, INC. and
REGISTER OF DEEDS OF
ORIENTAL MINDORO,

Respondents.

G.R. No. 200899

Present:

CARPIO, J., Chairperson,
PERALTA,
PERLAS-BERNABE,
CAGUIOA,
REYES, JR, JJ.

Promulgated:

20 JUN 2018

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DECISION

PERALTA, J.:

Before the Court is a petition for review on *certiorari* under Rule 45 of the Rules of Court seeking the reversal and setting aside of the Decision¹ and Resolution² of the Court of Appeals (CA), promulgated on September 28, 2011 and February 29, 2012, respectively, in CA-G.R. CV No. 90851. The assailed CA Decision affirmed the October 23, 2007 Decision³ of the Regional Trial Court (RTC) of Calapan City, Oriental Mindoro, Branch 40, in Civil Case No. R-03-5244, which dismissed the complaint for declaration of nullity of Transfer Certificate of Title (TCT) filed by herein petitioners' predecessor-in-interest against herein respondents.

¹ Penned by Associate Justice Jose C. Reyes, Jr., with Associate Justices Antonio L. Villamor and Ramon A. Cruz, concurring; *rollo*, pp. 30-41.

² *Rollo*, pp. 42-43.

³ Penned by Judge Tomas C. Leynes; *id.* at 125-133.

The factual and procedural antecedents are as follows:

On September 26, 2003, herein petitioners' predecessor-in-interest, Paz Macalalad (*Paz*) filed, with the RTC of Calapan City, a Complaint for "Declaration of Nullity of TCT No. T-117484" alleging that: she is the sole surviving legal heir of one Leopoldo Constantino, Jr. (*Leopoldo*) who died intestate on November 13, 1995 and without any issue; during his lifetime, Leopoldo owned a parcel of land with an area of 42,383 square meters, which is located at Pinagsabangan II, Naujan, Oriental Mindoro and registered under TCT No. RT-124 (T-45233); on July 14, 1998, after the death of Leopoldo, it was made to appear that the latter sold the subject lot to the spouses Remigio and Josephine Pimentel (*Spouses Pimentel*) in whose names a new TCT (No. T-96953) was issued; thereafter, the Spouses Pimentel obtained a loan from herein respondent Rural Bank of Pola, Inc. (*respondent bank*) and gave the subject parcel of land as collateral for the said loan, as evidenced by a contract of mortgage executed by the Spouses Pimentel in favor of respondent bank; respondent bank, acting in bad faith, in utter disregard of its duty to investigate the validity of the title of the Spouses Pimentel and without verifying the location of the lot, accepted the same as collateral for the Spouses Pimentel's loan; subsequently, the Spouses Pimentel failed to pay their loan leading respondent bank to foreclose the mortgage over the subject property where it (respondent bank) emerged as the highest bidder; consequently, respondent bank obtained ownership of the disputed lot; and the TCT in the name of the Spouses Pimentel was cancelled and a new one (TCT No. T-117484) was issued in respondent bank's name. Paz contended that respondent bank be made to suffer the ill effects of its negligent acts by praying that TCT No. T-117484 be cancelled and a new one be issued in the name of Leopoldo, the original owner.

In its Answer, respondent bank denied the material averments in Paz's complaint and claimed, in its affirmative defense, that: it is a mortgagee and purchaser in good faith; and it gave full faith and credit to the duly registered TCT given by the Spouses Pimentel as evidence of their ownership of the mortgaged property. Respondent bank also argued that a title procured through fraud and misrepresentation can still be the source of a completely valid and legal title if the same is in the hands of an innocent purchaser for value.

After the issues were joined, trial on the merits ensued.

Pending resolution of the case, Paz died on December 7, 2006. Hence, herein petitioners were substituted as party-plaintiffs.⁴



⁴ See RTC Order dated March 23, 2007, *id.* at 52.

On October 23, 2007, the RTC rendered its Decision dismissing petitioners' complaint for lack of merit. The RTC held that, “[a]fter a careful study and evaluation of the evidence adduced by both plaintiff and the defendant bank, it was clearly established that the latter had fully complied with the standard operating procedure in verifying the ownership of the land in question” and that “[t]he defendant bank, as a mortgagee, has a right to rely in good faith on the certificate of title of the mortgagor of the subject property given as security for the loan being applied for by the registered owners, the Spouses Pimentel, hence, the defendant bank is, therefore, considered a mortgagee in good faith.”⁵

Aggrieved, petitioners filed an appeal with the CA.

On September 28, 2011, the CA promulgated its assailed Decision affirming the Decision of the RTC. The CA echoed the ruling of the RTC by holding that the “appellee bank was not remiss in its duty to conduct an ocular inspection on the subject premises and to investigate as to the validity of the title of the property being given as security” and that by “observing [the] standard practices for banks, defendant-appellee bank exercised due care and diligence in ascertaining the condition of the mortgaged property before entering into a mortgage contract and approving the loan.”⁶

Petitioners filed a Motion for Reconsideration,⁷ but the CA denied it in its Resolution of February 29, 2012.

Hence, the present petition for review on *certiorari* based on the following issues:

I.

WHETHER THE HONORABLE COURT OF APPEALS ERRED IN AFFIRMING THE LEGALITY OF THE DEED OF SALE PURPORTEDLY EXECUTED BETWEEN LEOPOLDO CONSTANTINO, JR. AND SPOUSES PIMENTEL.

II.

WHETHER THE HONORABLE COURT OF APPEALS ERRED IN AFFIRMING THAT THE RESPONDENT BANK ACTED IN GOOD FAITH AND WAS AN INNOCENT MORTGAGEE FOR VALUE.⁸

In a Resolution⁹ dated June 18, 2012, this Court, among others, required respondents to file their Comment to the present petition, but they failed to do so.

⁵ Records, p. 168.

⁶ *Rollo*, p. 8.

⁷ *Id.* at 134-140.

⁸ *Id.* at 15.

⁹ *Id.* at 141.

On November 28, 2012, the Court issued another Resolution¹⁰ requiring respondent bank's counsel, Atty. Cesar A. Enriquez (*Atty. Enriquez*) to: (1) show cause why he should not be disciplinarily dealt with or held in contempt for his failure to file the above-required Comment, and; (2) comply with the June 18, 2012 Resolution of this Court.

In his letter,¹¹ which was posted on February 5, 2013, Atty. Enriquez informed this Court that: his failure to file the required Comment was brought about by his old age and physical ailment; he has directed his client to engage the services of another lawyer; and he is adopting and re-pleading his written memorandum which formed part of the records of this case as his Comment to the petition.

In its Resolution¹² dated April 1, 2013, this Court accepted Atty. Enriquez's explanation and required respondent bank to submit to the Court the name and address of its new counsel and for the said counsel to file the required Comment to the petition.

Subsequently, for failure of respondent bank to submit the name and address of its new counsel, within the period fixed in this Court's Resolution of April 1, 2013, this Court issued another Resolution,¹³ dated November 20, 2013, requiring respondent bank's General Manager, Leonor L. Hidalgo (*Hidalgo*), to show cause why she should not be held in contempt for such failure, and to comply with the said Resolution.

In her letter¹⁴ dated January 8, 2014, Hidalgo offered the explanation that: Atty. Enriquez failed to inform her of the necessity of submitting the name and address of their new counsel; she has no intention of disobeying this Court's directive and asks the Court's indulgence and forgiveness; respondent bank is no longer engaging the services of a new counsel; and they are adopting their memorandum filed with the RTC and the CA to support their position.

In a subsequent Resolution¹⁵ dated March 17, 2014, this Court noted Hidalgo's above letter but, nonetheless, directed her to cause the appearance of respondent bank's new counsel, and the latter to file the required Comment to the present petition.



¹⁰ *Id.* at 142.

¹¹ *Id.* at 143.

¹² *Id.* at 146.

¹³ *Id.* at 151.

¹⁴ *Id.* at 152.

¹⁵ *Id.* at 154.

Despite due notice and directive by this Court in subsequent Resolutions,¹⁶ Hidalgo repeatedly failed to comply leading this Court to impose upon her a fine of ₱1,000.00. The Court continued to direct Hidalgo to cause the appearance of respondent bank's counsel and the latter to file the required Comment to the petition.

In its latest Resolution dated August 16, 2017, this Court again noted Hidalgo's non-compliance with its directives and again required her to show cause why she should not be disciplinarily dealt with or held in contempt for her non-compliance. To date, Hidalgo has yet to comply with the above Resolution.

Thus, so as not to unduly delay the disposition of the present case, the Court resolves to dispense with respondent bank's comment and to proceed with the disposition of the petition on the basis of the pleadings at hand.

In the first issue raised, petitioners contend that the Deed of Sale from which the respondent bank supposedly derived its title to the property is a complete nullity considering that the said Deed, bearing Leopoldo's signature, was executed in favor of the Spouses Pimentel, on July 14, 1998, in spite of the fact that Leopoldo died three years earlier, on November 13, 1995.

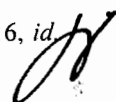
As to the second issue, petitioners insist that respondent bank acted in bad faith, when it approved the loan of the Spouses Pimentel as secured by the disputed property, because it (respondent bank) was remiss in its obligation to verify the alleged ownership of the said spouses over the subject property.

The petition lacks merit.

At the outset, this Court notes that the Complaint filed by petitioners had two prayers: *first*, the declaration of nullity of TCT No. T-117484, in the name of respondent bank; and *second*, the re-issuance of the title over the subject property in the name of Leopoldo, who is petitioners' predecessor-in-interest and the original owner of the said property.

Considering that the second prayer requires the cancellation of the title not only of respondent bank but also that of the Spouses Pimentel from whom respondent bank's title was derived, it follows that the Spouses Pimentel are indispensable parties insofar as the second prayer is concerned. However, petitioners never impleaded the Spouses Pimentel in their Complaint.

¹⁶ See Resolutions dated September 10, 2014, January 21, 2015, July 8, 2015, and April 4, 2016, *id.* at 155, 159, 161, and 168.



In relation to the abovementioned second prayer, the necessary implication of the arguments raised by petitioners in the first issue raised in the present petition is that the Spouses Pimentel could not have legally acquired ownership over the subject property because the signature of Leopoldo in the deed of sale executed in their favor was forged. Hence, not being the owners of the disputed lot, they could not have validly mortgaged the same to respondent bank. In turn, respondent cannot subsequently acquire the said property after foreclosure sale.

Unfortunately, the factual issue of whether or not the deed of sale between the Spouses Pimentel and Leopoldo is valid was not resolved neither by the RTC or the CA because petitioners did not implead the Spouses Pimentel in their complaint. Nonetheless, without delving into this issue, this Court reiterates the settled principle that no one can give what one does not have.¹⁷ *Nemo dat quod non habet*. Stated differently, no one can transfer a right to another greater than what he himself has.¹⁸ Applying this principle to the instant case, granting that the deed of sale in favor of the Spouses Pimentel was forged, then, as discussed above, they could not have acquired ownership as well as legal title over the same. Hence, they cannot give the subject property as collateral in the mortgage contract they entered into with respondent bank.

However, there is an exception to the rule that a forged deed cannot be the root of a valid title – that is when an innocent purchaser for value intervenes. Indeed, a forged deed can legally be the root of a valid title when an innocent purchaser for value intervenes.¹⁹ A purchaser in good faith and for value is one who buys the property of another without notice that some other person has a right to or interest in such property and pays a full and fair price for the same, at the time of such purchase, or before he has notice of the claims or interest of some other person in the property.²⁰ Under Section 32 of Presidential Decree (*P.D.*) 1529, the definition of an innocent purchaser for value has been expanded to include an innocent lessee, mortgagee, or other encumbrancer for value.

In the present case, even assuming that the deed of sale between Leopoldo and the Spouses Pimentel was indeed forged, the same may, nonetheless, give rise to a valid title in favor of respondent bank if it is shown that the latter is a mortgagee in good faith. Such good faith will entitle respondent bank to protection such that its mortgage contract with the Spouses Pimentel, as well as respondent bank's consequent purchase of the subject lot, may no longer be nullified. Hence, as correctly pointed out by both the RTC and the CA, the basic issue that needs to be resolved in the

¹⁷ *Rufloe, et al. v. Burgos, et al.*, 597 Phil. 261, 270 (2009).

¹⁸ *Development Bank of the Philippines v. Prudential Bank*, 512 Phil. 267, 278 (2005).

¹⁹ *Rufloe, et al. v. Burgos, et al.*, *supra* note 17.

²⁰ *Id.*

instant case is whether or not respondent bank is a mortgagee and a subsequent purchaser of the subject lot in good faith.

At this point, it must be stressed that the issue of whether respondent bank acted in good faith, when it accepted the subject property as collateral in the mortgage contract it entered into with the Spouses Pimentel, is a question of fact, the determination of which is beyond the ambit of this Court's power of review under Rule 45 of the Rules of Court, as amended. Only questions of law may be raised under this Rule as this Court is not a trier of facts.²¹ Moreover, where, as in this case, the CA affirms the factual findings of the trial court, such findings generally become conclusive and binding upon this Court.²² While there are several recognized exceptions to this rule,²³ the Court finds that none of these exceptions applies here.

In any case, in order to put *finis* to the present controversy, this Court as a tribunal of last resort, shall proceed to resolve the basic issue in the present petition on the basis of the records at hand.

The settled rule is that the burden of proving the status of a purchaser in good faith lies upon one who asserts that status, and this *onus probandi* cannot be discharged by mere invocation of the legal presumption of good faith.²⁴ A purchaser in good faith is one who buys property without notice that some other person has a right to or interest in such property and pays its fair price before he or she has notice of the adverse claims and interest of another person in the same property.²⁵ The honesty of intention which constitutes good faith implies a freedom from knowledge of circumstances which ought to put a person on inquiry.²⁶

It is, likewise, settled that every person dealing with registered land may safely rely on the correctness of the certificate of title issued therefor and the law will in no way oblige him to go beyond the certificate to determine the condition of the property.²⁷ Where there is nothing in the certificate of title to indicate any cloud or vice in the ownership of the

²¹ *Civil Service Commission v. Maala*, 504 Phil. 646, 652 (2005).

²² *Spouses Francisco v. Court of Appeals, et al.*, 449 Phil. 632, 647 (2003).

²³ (1) When the findings are grounded entirely on speculations, surmises, or conjectures; (2) when the inference made is manifestly mistaken, absurd, or impossible; (3) when there is a grave abuse of discretion; (4) when the judgment is based on a misapprehension of facts; (5) when the findings of facts are conflicting; (6) when in making its findings, the CA went beyond the issues of the case, or its findings are contrary to the admissions of both the appellant and the appellee; (7) when the findings are contrary to those of the trial court; (8) when the findings are conclusions without citation of specific evidence on which they are based; (9) when the facts set forth in the petition as well as in the petitioner's main and reply briefs are not disputed by the respondent; (10) when the findings of fact are premised on the supposed absence of evidence and contradicted by the evidence on record; and (11) when the CA manifestly overlooked certain relevant facts not disputed by the parties, which, if properly considered, will justify a different conclusion. (*Manila Electric Company v. South Pacific Plastic Manufacturing Corporation*, 526 Phil. 105, 111-112 (2006))

²⁴ *Tolentino, et al. v. Sps. Latagan, et al.*, 761 Phil. 108, 134 (2015).

²⁵ *Id.*

²⁶ *Id.*

²⁷ *Id.*

property, or any encumbrance thereon, the purchaser is not required to explore further than what the Torrens Title upon its face indicates in quest for any hidden defects or inchoate right that may subsequently defeat his right thereto.²⁸

However, this rule shall not apply when the party has actual knowledge of facts and circumstances that would impel a reasonably cautious person to make such inquiry or when the purchaser has knowledge of a defect or the lack of title in his vendor or of sufficient facts to induce a reasonably prudent person to inquire into the status of the title of the property in litigation.²⁹

Moreover, in the present case, respondent is not an ordinary mortgagee; it is a mortgagee-bank. As such, unlike private individuals, it is expected to exercise greater care and prudence in its dealings, including those involving registered lands.³⁰ A banking institution is expected to exercise due diligence before entering into a mortgage contract.³¹ 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 its operations.³² Thus, this Court held that:

x x x where the mortgagee is a bank, it cannot rely merely on the certificate of title offered by the mortgagor in ascertaining the status of mortgaged properties. Since its business is impressed with public interest, the mortgagee-bank is duty-bound to be more cautious even in dealing with registered lands. Indeed, the rule that a person dealing with registered lands can rely solely on the certificate of title does not apply to banks. 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 owners 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.³³

In this case, the Court finds no cogent reason to depart from the findings of both the RTC and the CA that respondent was able to successfully discharge its burden of proving its status as a mortgagor and subsequent purchaser in good faith and for value. Thus, the Court quotes, with approval, the ruling of the CA which affirms the factual findings of the RTC, to wit:

²⁸ *Id.*

²⁹ *Id.*

³⁰ *Arguelles, et al. v. Malarayat Rural Bank, Inc.*, 730 Phil. 226, 237 (2014), citing *Cruz v. Bancom Finance Corporation*, 429 Phil 225, 239 (2002).

³¹ *Id.*

³² *Id.*

³³ *Arguelles, et al. v. Malarayat Rural Bank, Inc.*, *supra* note 30, citing *Ursal v. Court of Appeals*, 509 Phil. 628, 642 (2005).

As correctly found by the RTC in the instant case, defendant-appellee bank [herein respondent bank] was not remiss in its duty to conduct an ocular inspection on the subject premises and to investigate as to the validity of the title of the property being given as security. As records would show, defendant-appellee bank sent a representative/appraiser (Mr. Ronnie Marcial) to conduct an ocular inspection of the subject property. The said representative/appraiser was able to ascertain the owner thereof, the nature of the subject property, its location and area, its assessed value and its annual yield (See: Report of Inspection and Credit Investigation, Records, p. 140). Moreover, defendant-appellee bank made a verification from the Office of the Register of Deeds of Oriental Mindoro if the subject property is indeed titled in the name of the mortgagors (Spouses Pimentel) (See: TSN, February 22, 2007, pp. 20-21) x x x.³⁴

Petitioners contend that if respondent bank's representative indeed conducted an ocular inspection of the disputed property, he would have readily discovered the presence of their tenant on the said property who could have informed respondent bank of the true ownership thereof. However, this Court finds no sufficient evidence to reverse the findings of both the RTC and the CA that respondent bank indeed sent a representative to inspect the subject lot; and, if such representative indeed found another person in possession of the said property, who lays claim over the same, the representative would have indicated the same in his report because it is the respondent bank which would be at a disadvantage and even ultimately lose if the presence of an adverse possessor was not reported. Nonetheless, there is nothing in the representative's Report of Inspection and Credit Investigation which indicates such presence. Thus, respondent bank is justified in believing that the title of the Spouses Pimentel is neither invalid nor defective.

As a final note, the obstinate failure of respondent bank's General Manager, Leonor L. Hidalgo, to comply with the Court's numerous directives does not escape the attention of this Court. While it is true that the cause of respondent bank, which she represents, was ultimately proven to be meritorious, this fact does not excuse nor justify her repeated failure to follow the orders of this Court. Thus, as a consequence, this Court imposes upon Hidalgo an additional fine of ₱2,000.00 for her non-compliance with the Resolutions of this Court dated April 1, 2013, November 20, 2013, March 17, 2014, and the other Resolutions subsequent thereto.

WHEREFORE, the instant petition for review on *certiorari* is **DENIED**. The Decision and Resolution of the Court of Appeals dated September 28, 2011 and February 29, 2012, respectively, in CA-G.R. CV No. 90851 are **AFFIRMED**.




³⁴

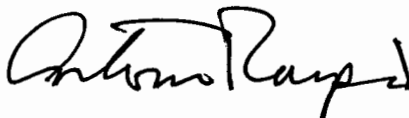
Rollo, p. 38.

Respondent bank's General Manager, Leonor L. Hidalgo is **ORDERED to PAY** an additional fine of ₱2,000.00 for her repeated failure to heed the directives of this Court, and is **STERNLY WARNED** that a repetition of the same or similar act will be dealt with more severely.


SO ORDERED.


DIOSDADO M. PERALTA
Associate Justice

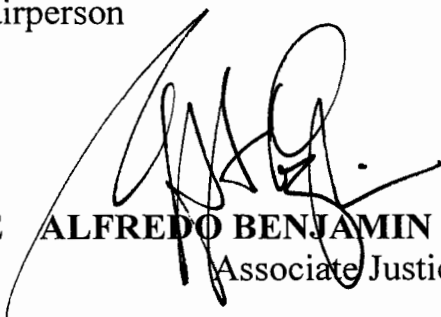
WE CONCUR:



ANTONIO T. CARPIO
Senior Associate Justice
Chairperson



ESTELA M. PERLAS BERNABE
Associate Justice



ALFREDO BENJAMIN S. CAGUIOA
Associate Justice



ANDRES B. REYES, JR.
Associate Justice

CERTIFICATION

Pursuant to Section 13, Article VIII of the Constitution, 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.



ANTONIO T. CARPIO
Senior Associate Justice
(Per Section 12, Republic Act No. 296, The Judiciary Act of 1948, as amended)