



Republic of the Philippines  
 Supreme Court  
 Manila

SUPREME COURT OF THE PHILIPPINES  
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FIRST DIVISION

**SPOUSES ELLIS R. MILES  
 and CAROLINA  
 RONQUILLO-MILES,**  
 Petitioners,

**G.R. No. 209544**

Present:

SERENO, C.J.,  
*Chairperson,*  
 LEONARDO-DE CASTRO,  
 DEL CASTILLO,  
 JARDELEZA, and  
 TIJAM, JJ.

- versus -

Promulgated:

**BONNIE BAUTISTA LAO,**  
 Respondent.

**NOV 22 2017**

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**DECISION**

**TIJAM, J.:**

This resolves the Petition for Review on *Certiorari*<sup>1</sup> under Rule 45 asasiling the Decision<sup>2</sup> dated May 24, 2013 and Resolution<sup>3</sup> dated September 30, 2013 of the Court of Appeals (CA) in CA-G.R. CV No. 95973.

**The Antecedents**

This case stemmed from a complaint<sup>4</sup> filed by petitioner Spouses Ellis and Carolina Miles (Petitioners) against spouses Ricardo and Cresencia Ocampo (spouses Ocampo), spouses Rodora and Reynaldo Jimenez, Bonnie Bautista Lao (respondent), Atty. Mila Flores, in her capacity as the Register

<sup>1</sup>Rollo, pp. 9-40.

<sup>2</sup>Penned by Associate Justice Samuel H. Gaerlan with Associate Justices Apolinario D. Bruselas, Jr. and Priscilla J. Baltazar-Padilla concurring; id. at 41-49.

<sup>3</sup>Id. at 74-75.

<sup>4</sup>Id. at 98-113.

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of Deeds, Makati City and Atty. Engracio M. Escasinas, Jr., in his capacity as the Clerk of Court VII and Ex-Officio Sheriff of the Regional Trial Court (RTC), Makati City.

Petitioners claimed that on March 28, 1983, they became registered owners in fee simple of a parcel of land in Makati City, covered by Transfer Certificate of Title (TCT) No. 120427<sup>5</sup> (subject property). They averred that before they left for the United States, they entrusted the duplicate of the TCT of the subject property to their niece, defendant Rodora Jimenez (Rodora) so that she may offer it to interested buyers. They claimed that no written Special Power of Attorney (SPA) to sell the property was given to Rodora.

They alleged that Rodora and spouses Ocampo conspired and made it appear, through a falsified Deed of Donation dated April 21, 1998, that petitioners were donating the subject property to spouses Ocampo. As a result, TCT No. 120427 was cancelled and a new one, TCT No. 212314<sup>6</sup> was issued in the name of spouses Ocampo.

Later on, petitioners claimed that through falsification, evident bad faith and fraud, spouses Ocampo caused the execution of a falsified Real Estate Mortgage<sup>7</sup> in favor of respondent Lao, with the subject property as security, in exchange of a loan in the amount of Php2,500,000. Since the spouses Ocampo failed to pay the loan, respondent foreclosed the mortgage.

Alleging that there was collusion among the defendants, petitioners prayed that TCT No. 21234 in the name of spouses Ocampo be cancelled, and TCT No. 120427 under their name be restored. They also prayed for the nullification of the Deed of Donation<sup>8</sup> dated April 21, 1998, the mortgage executed by spouses Ocampo in favor of respondent and the cancellation of the mortgage inscription on the title of the property.

For their part, all the defendants denied petitioners' claim that there was collusion among them.

For defendant Rodora, she claimed that she is related to petitioners by consanguinity, and by affinity to spouses Ocampo. She admitted to the sale of the subject property to spouses Ocampo. She however claimed that the sale was with petitioners' knowledge and consent through a SPA<sup>9</sup> dated July 10, 1997. She claimed that petitioners communicated the same via overseas call. She claimed that the agreement was for spouses Ocampo to pay the consideration within two months from the execution of the Deed of Sale on February 13,

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<sup>5</sup>Id. at 127.

<sup>6</sup>Id. at 114.

<sup>7</sup>Id. at 118-123.

<sup>8</sup>Id. at 116-117.

<sup>9</sup>Id. at 126.

1998.<sup>10</sup>

Spouses Ocampo maintained that they acquired the property in good faith and for value. They offered in evidence a SPA purportedly executed by petitioners authorizing Rodora to sell the property and a Deed of Sale<sup>11</sup> purportedly executed by Rodora in their favor.<sup>12</sup>

Meanwhile, respondent alleged that she entered into a mortgage contract with spouses Ocampo without knowledge that their title thereon was defective. She claimed that at the time of the mortgage, the subject property was in the name of spouses Ocampo and there was nothing in the title which suggested that it was fraudulently acquired. She even claimed that she conducted an ocular inspection on the property to determine if there were other occupants thereon but none were found.<sup>13</sup>

### **The Ruling of the RTC**

In a Decision<sup>14</sup> dated January 14, 2009, the RTC ruled in favor of petitioners. The dispositive portion of the Decision reads:

In view of the foregoing antecedents, judgment is rendered in favor of the plaintiffs and against the defendants, as follows:

1. Declaring Transfer Certificate of Title No. 21234 in the name of [Spouses Ocampo] as null and void and of no legal force and effect and TCT No. 120427 in the name of Ellis Miles is hereby restored;
2. The Deed of Donation dated 21 April 1998, Deed of Absolute Sale, Special Power of Attorney and all other documents resulting to the cancellation of TCT No. 120427 as well as the Real Estate Mortgage dated 22 December 1998 inscribed under Entry No. 21772/T-212314, they are declared null and void and of no legal force and effect whatsoever;
3. [Respondent] is hereby ordered to voluntarily and peacefully surrender to the Court the Owner's Duplicate of TCT No. 212314 within fifteen (15) days from finality of the judgment for purposes of cancellation;
4. Ordering the Register of Deeds of Makati City to cancel all of the entries appearing at the dorsal portion of TCT No. 120427,
5. Ordering defendants [Rodora] and [spouses Ocampo] jointly and severally to pay [petitioners] the amount of P572,940.00 (sic) representing their airfare from the USA to the Philippines;
6. Ordering defendants Jimenez and [spouses Ocampo] jointly and severally to pay [petitioners] the amount of P1,000,000.00 as moral and exemplary damages; and
7. Ordering defendants Jimenez and [spouses Ocampo] jointly and severally to pay [petitioners] the amount of P500,000.00 as and for attorney's fees.

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<sup>10</sup>Id. at 134-135.

<sup>11</sup>Id. at 124-125.

<sup>12</sup>Id. at 128-133.

<sup>13</sup>Id. at 137-149.

<sup>14</sup>Id. at 85-96.

The compulsory counterclaim of defendants are denied for lack of merit. Likewise, for failure to prove the same, [respondent]'s cross-claim against defendants Jimenez and [spouses Ocampo] are denied.

SO ORDERED.<sup>15</sup>

Only respondent appealed to the CA. Meanwhile, it appears that the trial court issued a writ of execution<sup>16</sup> dated July 8, 2010, implementing paragraphs 4 to 7 of its January 14, 2009 Decision.

### **The Ruling of the CA**

The appellate court reversed the trial court and ruled that respondent is a mortgagee in good faith. The dispositive portion of its Decision<sup>17</sup> states:

WHEREFORE, premises considered, the instant Appeal is GRANTED and the Decision dated 14 January 2009 of the Regional Trial Court of Makati City, Branch 146, in Civil Case No. 99-1986 is **REVERSED and SET ASIDE** in so far as defendant-appellant Bonnie S. Lao is concerned.

Accordingly, the Real Estate Mortgage dated 22 December 1998 between defendant Spouses Ricardo Ocampo and Cresencia Ocampo and defendant-appellant Bonnie S. Lao is hereby declared **VALID and with LEGAL FORCE and EFFECT**.

SO ORDERED.<sup>18</sup>

Petitioners' motion for reconsideration was likewise denied in the CA's Resolution dated September 30, 2013.

Hence, this petition.

### **The Ruling of the Court**

The only issue for Our resolution is whether or not the CA erred in ruling that respondent is a mortgagee in good faith.

In this petition, petitioners alleged that respondent never conducted an investigation on the title of spouses Ocampo and the status of the subject property when she entered into a mortgage contract with the spouses Ocampo. They also conclude that respondent was not diligent when she dealt with the spouses Ocampo through one Carlos Talay.

At the outset, We note that the issue of whether a mortgagee is in good faith generally cannot be entertained in a petition filed under Rule 45 of the

<sup>15</sup>Id. at 95.

<sup>16</sup>Id. at 156-159.

<sup>17</sup>Id. at 41-49.

<sup>18</sup>Id. at 48.

1997 Rules of Civil Procedure, as amended.<sup>19</sup> 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.<sup>20</sup> However, a recognized exception to this rule is when the RTC and the CA have divergent findings of fact as in the case at bar.<sup>21</sup>

There is indeed a situation where, despite the fact that the mortgagor is not the owner of the mortgaged property, his title being fraudulent, the mortgage contract and any foreclosure sale arising therefrom are given effect by reason of public policy.<sup>22</sup> This is the doctrine of "the mortgagee in good faith" based on the rule that buyers or mortgagees dealing with property covered by a Torrens Certificate of Title are not required to go beyond what appears on the face of the title.

Indeed, a mortgagee has a right to rely in good faith on the certificate of title of the mortgagor of the property given as security, and in the absence of any sign that might arouse suspicion, the mortgagee has no obligation to undertake further investigation. This doctrine presupposes, however, that the mortgagor, who is not the rightful owner of the property, has already succeeded in obtaining Torrens title over the property in his name and that, after obtaining the said title, he succeeds in mortgaging the property to another who relies on what appears on the title.

The Court, in the case of *Andres, et al. v. Philippine National Bank*<sup>23</sup>, explained the dynamics of the burden of discovery in said doctrine, to wit:

The doctrine protecting mortgagees and innocent purchasers in good faith emanates from the social interest embedded in the legal concept granting indefeasibility of titles. The burden of discovery of invalid transactions relating to the property covered by a title appearing regular on its face is shifted from the third party relying on the title to the co-owners or the predecessors of the title holder. Between the third party and the co-owners, it will be the latter that will be more intimately knowledgeable about the status of the property and its history. The costs of discovery of the basis of invalidity, thus, are better borne by them because it would naturally be lower. A reverse presumption will only increase costs for the economy, delay transactions, and, thus, achieve a less optimal welfare level for the entire society.<sup>24</sup>

In cases where the mortgagee does not directly deal with the registered owner of real property, the law requires that a higher degree of prudence be exercised by the mortgagee.<sup>25</sup>

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<sup>19</sup> *Arguelles, et al. v. Malarayat Rural Bank, Inc.*, 730 Phil. 226, 234 (2014).

<sup>20</sup> *Philippine National Bank v. Juan F. Villa*, G.R. No. 213241, August 1, 2016.

<sup>21</sup> *Arguelles, et al. v. Malarayat Rural Bank, Inc.*, supra at 234-235.

<sup>22</sup> *Bank of Commerce v. San Pablo, et al.*, 550 Phil. 805, 820-821 (2007) citing *Cavite Development Bank v. Spouses Lim*, 381 Phil. 355, 368 (2000).

<sup>23</sup> *Andres, et al. v. Philippine National Bank*, 745 Phil. 459 (2014).

<sup>24</sup> *Id.* at 473.

<sup>25</sup> *Mercado v. Allied Banking Corporation*, 555 Phil. 411, 427 (2007).

In this case, the title of the property under the name of spouses Ocampo was already registered as early as May 6, 1998, while the real estate mortgage was executed December 16, 1998. Hence, it is clear that respondent had every right to rely on the TCT presented to her insofar as the mortgagors' right of ownership over the subject property is concerned.

Petitioners and the RTC however claims that respondent is in bad faith considering that she did not directly deal with the mortgagors, and dealt with them only through respondent's agent, Carlos Talay.

We find otherwise.

Petitioners' line of argument is *non-sequitur* and is simply insufficient to controvert respondent's good faith as mortgagee.

In ascertaining good faith, or the lack of it, which is a question of 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. Good faith, or want of it, is capable of being ascertained only from the acts of one claiming its presence, for it is a condition of the mind which can be judged by actual or fancied token or signs.<sup>26</sup> Good faith, or want of it, is not a visible, tangible fact that can be seen or touched, but rather a state or condition of mind which can only be judged by actual or fancied token or signs.<sup>27</sup> Good faith connotes an honest intention to abstain from taking unconscientious advantage of another.<sup>28</sup> In *Manaloto, et al. v. Veloso III*<sup>29</sup>, the Court defined good faith as “an honest intention to abstain from taking any unconscientious advantage of another, even through the forms or technicalities of the law, together with an absence of all information or belief of fact which would render the transaction unconscientious. In business relations, it means good faith as understood by men of affairs.”<sup>30</sup>

In this case, respondent's decision to deal with the mortgagors through a middleman, does not equate to bad faith. At the outset, it bears to stress that the spouses Ocampo were already the registered owners of the property at the time they entered into a mortgage contract with respondent. Hence, respondent was justified in relying on the contents of TCT No. 212314 and is under no legal obligation to further investigate. Likewise, there is nothing in the records, and neither did petitioners point to anything in the title which would arouse suspicions as to the spouses Ocampo's defective title to the subject property.

While arguably, respondent's decision to use a middleman in her transactions with the mortgagors could be characterized as risky or reckless, the

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<sup>26</sup>*Expresscredit Financing Corp. v. Sps. Velasco*, 510 Phil. 342, 352 (2005).

<sup>27</sup>*Id.*

<sup>28</sup>*PNB v. Heirs of Estanislao and Deogracias Militar*, 526 Phil. 788 (2006).

<sup>29</sup>646 Phil. 639 (2010).

<sup>30</sup>*Id.* at 656.

same does not establish a corrupt motive on the part of respondent, nor an intention to take advantage of another person. Indeed, bad faith does not simply connote bad judgment or negligence.<sup>31</sup>

We also note respondent's insistence that she conducted an ocular inspection on the subject property and found that the lot was vacant before she decided to enter into a mortgage contract with spouses Ocampo. This fact remained uncontroverted throughout the trial before the RTC. We agree with respondent that the allegation set forth in spouses Ocampo's Manifestation and Motion to Set Aside Decision<sup>32</sup> against Defendants Spouses Ocampo dated November 3, 2009 cannot be appreciated to contradict the established fact that respondent made an ocular inspection of the subject property. The pertinent portion of the said manifestation states:

2. However, long before the said decision was rendered, the plaintiffs have already taken possession of the property subject of this litigation by way of recovering their ownership thereof;
3. In fact, plaintiffs had long been leasing the subject property to a certain JUAN ARMAMENTO, a barangay kagawad of Pio del Pilar;
4. The foregoing facts render the decision of the Court moot and academic insofar as defendants Spouses Ocampo are concerned, no longer enforceable against them, having in effect been satisfied.<sup>33</sup>

Suffice it to state that the aforesaid statements are mere allegations, not presented during trial, and are unsupported by any evidence.<sup>34</sup> Hence, We cannot accord weight to them. Certainly, it is plausible that the lease to the aforesaid Armamento could have occurred after the mortgage was already executed, and even during the pendency of the case.

Neither is respondent's act of filing a foreclosure suit instead of a criminal case against spouses Ocampo indicative of her bad faith. In *Sps. Yap and Guevarra v. First e-Bank Corp.*,<sup>35</sup> this Court already recognized that if the debtor fails (or unjustly refuses) to pay his debt when it falls due and the debt is secured by a mortgage and by a check, the creditor has three options against the debtor and the exercise of one will bar the exercise of the others. The remedies include foreclosure and filing of a criminal case for violation of BP 22 (Bouncing Checks Law). Verily, when respondent opted to foreclose, he merely exercised a privilege granted to him by law as a secured creditor. Hence, without sufficient justification, We cannot impute bad faith on respondent by her exercise of such right.

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<sup>31</sup>*Adriano, et al. v. Lasala, et al.* 719 Phil. 408, 419 (2013).

<sup>32</sup>*Rollo*, pp. 160-163.

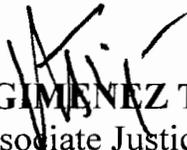
<sup>33</sup>*Id.* at 161-162.

<sup>34</sup>*Sps. Guidangen v. Wooden*, 682 Phil. 112, 124 (2012).

<sup>35</sup>617 Phil. 57 (2009).

**WHEREFORE**, the petition is **DENIED** for lack of merit. The the Decision dated May 24, 2013 and Resolution dated September 30, 2013 of the Court of Appeals in CA-G.R. CV No. 95973 are hereby **AFFIRMED**.

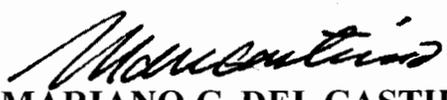
**SO ORDERED.**

  
**NOEL GIMENEZ TIJAM**  
Associate Justice

**WE CONCUR:**

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

  
**TERESITA J. LEONARDO-DE CASTRO**  
Associate Justice

  
**MARIANO C. DEL CASTILLO**  
Associate Justice

  
**FRANCIS H. JARDELEZA**  
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.



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