EN BANC

G.R. No. 209463 — FLORENCIA H. DUENAS and DAPHNE DUENAS-MONTEFALCON, *petitioners*, ***versus*** **METROPOLITAN BANK AND TRUST COMPANY and ELVIRA ONG CHAN; AF REALTY DEVELOPMENT, INC. and ZENAIDA R. RANULLO; ADELAIDA T. BERNAL; and PENELOPE ISON and INOCENCIO DOMINGO OF THE REGISTER OF DEEDS OF MAKATI CITY,** *respondents*.

Promulgated:

November 29, 2022

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CONCURRING OPINION

CAGUIOA, *J.*:

I concur.

As narrated in the *ponencia*, this case involves four successive transfers of titles over three parcels of land with a total area of 1,411 sq. m. located in Makati City (subject lots), with the ultimate titles over the subject lots ending in the hands of respondent Metropolitan Bank and Trust Company (Metrobank). Key in the determination of the controversy before the Court is the effect of the fraudulent scheme which included the presentation of a falsified court decision which made possible the issuance of new titles over the subject lots, and the subsequent sale of the same to AF Realty Development, Inc. (AFRDI) and, ultimately, to Metrobank.

The above fraudulent machinations pivot the facts of this case, and the legal ramifications it brings to the parties give rise to what I submit are: *first*, a misappreciation of the buyer in good faith status in favor of Metrobank under the prevailing definition of the same; *second*, a need to disabuse the prevailing misnomer that even in the case of a laundered title, a subsequent buyer who claims to have relied on a "clean title" absolutely gains a right over the property that is superior to that of the registered owner who did not contribute to the fraud, either by positive agency or otherwise neglect; and *third*, a jurisprudential opportunity to clarify who the Torrens system should protect first and foremost.

For the full context and a careful tracing of the transfers of the titles over the subject lots, a brief recall of the pertinent facts is in order.

The subject lots were originally registered in the name of Dolores Egido (Dolores) under Transfer Certificate of Title (TCT) Nos. T-79864, T-79865, and T-79866.[1] In May 1978, these TCTs were cancelled and in lieu thereof,

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[1] *Rollo*, p. 9.

TCT Nos. S-68301, S-68302 and S-68303 were issued in the name of Bellever Brothers, Inc. (BBI).[2]

BBI later contracted a loan from Manotoc Securities, Inc. (MSI) in the amount of ₱2,500,000.00, and mortgaged the subject lots as security, *via* a Deed of Mortgage annotated on TCT Nos. S-68301, S-68302 and S-68303.[3]

In June 1978, Dolores filed a complaint in the Court of First Instance of Pasig (CFI-Pasig) against BBI and MSI to rescind and declare null the sale of the subject lots, and to cancel BBI's titles over them (Civil Case No. 29782).[4] She also caused the annotation of a Notice of *Lis Pendens* on the said TCTs. When Dolores later died, she was survived by her daughter Carmen Egido (Carmen).[5]

In September 1981, CFI-Pasig issued a writ of preliminary injunction, which was also annotated on the TCTs sought to be cancelled. Then, while the case was temporarily archived, Carmen authorized petitioner Florencia Duenas (Florencia) to enter into a settlement of this archived case, and subsequently assigned to the latter all her rights over the subject lots in August 1991.[6]

Meanwhile, MSI was dissolved and placed under receivership. Florencia sent the Securities and Exchange Commission (SEC) a Letter Proposal for Amicable Settlement of Civil Case No. 29782, and while Florencia and MSI's receiver were negotiating a compromise agreement over the subject lots,[7] they discovered that TCT Nos. S-68301, S-68302 and S-68303 in the name of BBI were cancelled by Mila Flores (Flores), the Register of Deeds of Makati City.[8] This cancellation was the result of one Adelaida Bernal (Bernal), allegedly acting as a representative of MSI, executing an Affidavit of Loss of these TCTs, and filing a petition for issuance of a new owner's duplicate copy of the said titles before Branch 135, Regional Trial Court (RTC) of Makati City (Makati RTC Br. 135) (LRC Case No. M-2490). This petition was granted by Makati RTC Br. 135, and the Register of Deeds, upon order, issued a new owner's duplicate copy of said TCTs.[9]

Then, Bernal and BBI presented a falsified Decision in the archived Civil Case No. 29782 and a Deed of Absolute Sale (DoAS) to cancel the annotated entries on the TCTs and the issuance of a third set of titles, TCT Nos. 178934, 178935 and 178936 in Bernal's name.[10]

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2 Id. at 55.

3 The date indicated in the Deed of Mortgage is May 18, 1978 (id. at 341-352), while the date annotated in the titles is May 19, 1978 (*see* dorsal portions of pp. 331-333). *See also* id. at 54; *ponencia*, p. 2

4 *Rollo*, pp. 54, 360.

5 *Ponencia*, p. 2.

6 Id. at 3.

7 Id.

8 *Rollo*, p. 55.

9 Id.

10 Id.

As it were, Sps. Daniel Duenas (Daniel) and Florencia (Sps. Duenas) disputed this and averred that the CFI-Pasig did not render any decision on Civil Case No. 29782 and that it was archived. They added that to protect their right over the subject lots, they caused the annotation of their Affidavit of Adverse Claim on the third set of TCTs (TCT Nos. 178934, 178935 and 178936). They also filed a complaint before Branch 61, RTC of Makati City (Makati RTC Br. 61) to declare the third set of TCTs and the DoAS null, as well as for damages against Bernal and BBI, *et al.*[11]

While initially a Notice of *Lis Pendens* was annotated on these TCTs, the same was later cancelled by Makati RTC Br. 61 in its Order dated January 25, 1993. Sps. Duenas also assailed this cancellation before the Court of Appeals (CA).[12]

During the pendency of the case, Bernal (in whose name the third set of TCTs in dispute are named) executed a DoAS in April 1993 over the subject lots in favor of AFRDI, so that the Register of Deeds of Makati City cancelled the Affidavit of Adverse Claim of Sps. Duenas and issued the fourth set of TCTs over the subject lots in the name of AFRDI. Sps. Duenas, once more, filed a complaint before Branch 60, RTC of Makati City (Makati RTC Br. 60) to declare the fourth set of TCTs and the DoAS in favor of AFRDI null and void. As well, Sps. Duenas caused the annotation of another Notice of *Lis Pendens* on this fourth set of TCTs.[13]

However, before anything could be decided, AFRDI sold the subject lots to Metrobank *via* a DoAS, which in turn constrained Sps. Duenas to amend their most recent complaint to implead Metrobank.[14]

Later, a fifth set of TCTs over the subject lots (TCT Nos. 195231, 195232 and 195233) were issued in the name of Metrobank. Metrobank, for its part, countered that it is a purchaser in good faith and for value, since the TCTs in the name of AFRDI did not show any lien or encumbrance at the time it bought them in January 1994 (since the Notice of *Lis Pendens* was only annotated on them a month after said purchase).[15]

Makati RTC Br. 61 declared the third set of TCTs (in Bernal's name) null and void. It also reinstated the second set of TCTs (in BBI's name) along with all the entries therein. Makati RTC Br. 60 found that Bernal perpetuated a fraudulent scheme that unlawfully deprived the petitioners and MSI of their ownership and beneficial interest in the subject lots.[16]

However, owing to the Innocent Purchaser for Value (IPV) rule, Makati RTC Br. 60 held that since the ownership and titles of the subject lots had already passed into the hands of Metrobank that bought the subject three lots

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11 Id. at 55-56.
12 Id. at 56.
13 Id.; *ponencia*, p. 5.
14 *Rollo*, p. 57.
15 Id.; *ponencia*, p. 5.
16 *Rollo*, p. 381.

free from any liens and encumbrances, Sps. Duenas and MSI's proper recourse is to go against the parties who committed the fraud, and, who by their negligence, allowed the title to go into the hands of innocent purchasers as per Section 55 of Act No. 496 [now Section 53 of Presidential Decree No. (PD) 1529].[17]

On appeal to the CA, the latter affirmed Makati RTC Br. 60 *in toto* and similarly found that while there was fraud committed which wrested from Sps. Duenas their rights over the subject lots, the same could no longer be recovered since the subject lots have come into the lawful possession of an IPV, *i.e.*, Metrobank.[18]

Daniel died on February 23, 2007 during the pendency of the case with the CA and was substituted by his heirs Florencia and Daphne Duenas-Montefalcon, the herein petitioners.

The *ponencia* finds the petition with merit.[19] It reverses the CA Decision insofar as the rights of petitioners over the subject lots are concerned, and declares the TCTs in Metrobank's name null and void, and the TCTs in the name of AFRDI similarly null and void. It orders Metrobank and all persons claiming rights under it to vacate 60% of the subject property and deliver its possession to petitioners, as well as remove or demolish what has been built on the 60% portion of the subject properties at its expense.[20]

The *ponencia* also orders Metrobank to pay petitioners the amount of ₱5,000,000.00 as temperate damages. It also orders Metrobank, AFRDI, Penelope Ison and Inocencio Domingo to jointly and severally pay petitioners ₱200,000.00 as moral damages. Finally, it orders AFRDI to reimburse Metrobank the amount of 60% of ₱39,308,000.00, the purchase price paid, with legal interest.[21]

Given the foregoing pronouncements, I respectfully concur with the ultimate outcome of finding that petitioners are entitled to the recovery and possession of 60% of the subject three lots, as well as declaring the TCTs in the name of Metrobank and AFRDI null and void. I similarly agree with the crucial finding that necessitated a juxtaposition between the Notice of *Lis Pendens* of Sps. Duenas on the one hand, and Metrobank's registration of its DoAS on the other — that Metrobank is not an IPV. More broadly still, I must similarly submit that with respect to the appreciation of the IPV principle, we must not run roughshod over safeguards that ensure that the Torrens system of registration protects, foremost, the registered owner, instead of lends itself to the laundering of titles and the legitimization of land-grabbing schemes and the like.

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17 Id. at 384-385.
18 Id. at 64-68.
19 *Ponencia*, p. 16.
20 Id. at 49.
21 Id. at 50.

Allow me to discuss my reservations in *seriatim.*

Metrobank is <u>not</u> an IPV

On this central point of query, I proffer that Metrobank failed to prove that it was free from knowledge of circumstances which ought to put a person, or in this case a financial institution, on inquiry as to claim to be an IPV within the facts of this case.

It is important to observe that what may be easily distilled from the facts of this case is that Metrobank, **<u>an established financial institution charged with a specific very high due diligence standard</u>**, failed to show that it was an IPV, even as against the prevailing contemplation of the principle. For while there is some protection given by current case law to true innocent purchasers for value, the Court has already long elucidated on the variance in application of this case ***<u>with respect to banks</u>***.

Importantly, as against the requisites of the application of the IPV principle, Metrobank failed to establish that said requisites are present. Particularly, the case of *Heirs of Cudal, Sr. v. Spouses Suguitan*[22] instructs on the principles pertaining to proof of good faith on the part of buyers of real property, to wit:

> A holder of registered title may invoke the status of a buyer for value in good faith as a defense against any action questioning his [or her] title. Such status, however, is never presumed but must be proven by the person invoking it.
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> A buyer for value in good faith is one who buys property of another, without notice that some other person has a right to, or interest in, such property and pays full and fair price for the same, at the time of such purchase, or before he [or she] has notice of the claim or interest of some other persons in the property. He [or she] buys the property with the well-founded belief that the person from whom he [or she] receives the thing had title to the property and capacity to convey it.
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> To prove good faith, a buyer of registered and titled land need only show that he [or she] relied on the face of the title to the property. He [or she] need not prove that he [or she] made further inquiry for he [or she] is not obliged to explore beyond the four corners of the title. Such degree of proof of good faith, however, is sufficient only when the following conditions concur: first, the seller is the registered owner of the land; second, the latter is in possession thereof; and third, at the time of the sale, the buyer was not aware of any claim or interest of some other person in the property, or of any defect or restriction in the title of the seller or in his [or her] capacity to convey title to the property.
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> Absent one or two of the foregoing conditions, then the law itself puts the buyer on notice and obliges the latter to exercise a higher degree of diligence by scrutinizing the certificate of title and examining all factual circumstances in order to determine the seller's title and capacity to transfer

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22 G.R. No. 244405, August 27, 2020, accessed at <https://elibrary.judiciary.gov.ph/thebookshelf/showdocs/1/66517>.

> any interest in the property. **Under such circumstance, it is no longer sufficient for said buyer to merely show that he [or she] relied on the face of the title; he [or she] must now also show that he [or she] exercised reasonable precaution by inquiring beyond the title. Failure to exercise such degree of precaution makes him [or her] a buyer in bad faith.**[23] (Emphasis supplied)

As applied to the defense of Metrobank, its mere claim of reliance on the absence of annotations on the title must fail **in the face of a number of other reasonable precautions incumbent upon it which it did not take**.

The records of the case show that Metrobank failed to undertake the higher due diligence required of financial institutions which are jurisprudentially considered as more than just an ordinary buyer *vis-à-vis* the matter of the good faith requirement.

For one, the CA itself noted that on his cross-examination, Atty. Cris Villaluz (Atty. Villaluz), the Metrobank representative, admitted that they merely relied on the title itself, without undertaking any check on the history of the same, *viz.*:

> [Atty. Cris Villaluz] narrated that when the property was transferred to Metrobank in 1994, there was already an encumbrance which is the Notice of *Lis Pendens* referring to the case filed by Bernal against AF Realty. **In the purchase of real properties, the Bank does not normally conduct a history check of the titles covering the property and relies merely on the actual title presented, not the derivative title.** Before Metrobank purchased the property, he visited the same and saw around eight (8) shanties occupied by squatter families but he did not do anything about this because he was told that there were some NPA occupants in the area.[24] (Emphasis supplied)

For another, and despite Metrobank's consistent assertion that it observed the degree of diligence required of it in the purchase of the subject lots, Makati RTC Br. 60 observed Atty.Villaluz's admission that he was not aware of pending cases over the subject lots, which fact could have easily been determined had the diligence due been in fact observed. As Makati RTC Br. 60 noted:

> Upon cross examination made by Atty. Lucas, [Atty. Villaluz] admitted that he was not authorized to represent the bank in the transaction over the purchase of the property and was only asked to assist the officers on this matter; that he later came to know of the nullification suit of the three titles registered in the name of the bank; **that he was unable to make further verification or checking because he was very busy with other matters in the province concerning the purchase of other properties and emphasized that he only came to know of the properties being titled in the name of Bellever Brothers and the letter referring to other pending cases in Pasig after he received the Complaint in this on June 1994.**

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23 Id.

24 *Rollo*, p. 60.

> Later on, Atty. Magpantay was assigned to take charge of his duties and it was he who informed the management of the pending cases.
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> He is not aware of the Decision rendered by the RT[C] Br. 61 declaring as null and void the TCT of Bernal from which AF Realty and Metrobank took their titles, thereby reviving and reinstating TCT Nos. S-68301 to 68303 in favor of Duenas. He also did not know whether the lawyer who took over his duties became aware of this decision.[25] (Emphasis supplied)

In addition, and as the *ponencia* itself observes,[26] Atty. Villaluz relied on the assurance of a certain group or department within Metrobank, which reported to him verbally that the titles to the subject lots were authentic. On this, point, it must be noted that no representative from this said department in Metrobank testified before the court as to how it determined the history of the titles to the subject lots.

What is clear from the records, therefore, is that Metrobank failed to conduct the merited investigation needed despite the fact that, among others and as its representative testified to, they found other individuals in possession of the same, as found by the CA, to wit:

> On the other hand, the court *a quo* found that when Metrobank negotiated with AF Realty for the sale of the subject property sometime in September 1993, the titles were clean and no annotation of Notice of *Lis Pendens* were found. Moreover, Metrobank proceeded to conduct verification and counter-checking with the Registry of Deeds. Likewise, it found the titles with the Registry of Deeds clean and free from *liens* and encumbrances. These supported the findings that Metrobank is an innocent purchaser for value and enjoyed the protection of the law on indefeasibility of titles.
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> Based on the foregoing discussion, [Metrobank] qualifies as a purchaser in good faith. When it negotiated with AF Realty and eventually purchased the property on 31 January 1994, the titles over the property were clean. During verification with the Registry of Deeds, it was likewise confirmed that those titles were free from *liens* and encumbrances. Prior to the purchase, [Metrobank] took steps to visit the property. Its officers saw about eight (8) shanties occupied by squatters within the premises.[27]

This much Metrobank itself admits in its Answer before Makati RTC Br. 60, as an affirmative defense, *viz.*:

> Defendant MBTC had every right to rely on these titles and was not obliged to go behind them. It was not aware of any fact or document as would have made it to suspect that there was a cloud over the titles and thus to impel it to conduct an investigation.[28]

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25 Id. at 379-380.
26 *Ponencia*, pp. 26-27.
27 *Rollo*, pp. 64-65.
28 Id. at 281.

Plainly, this defense is ***belied*** by the very fact that, in the same breath, as testified to by Atty. Villaluz, Metrobank's representative saw that at least eight houses made of light materials were on the subject lots but did not consider that cause to investigate into the history of the ownership over the same. In both the narrations of Makati RTC Br. 60 and the CA, neither found the fact of the presence of the said structures on the subject lots meriting more than a curt dismissal as possible "NPA" occupants, without citing any basis for the said factual conclusion.

In addition, when the possession of a property purchased is crucial in the determination of whether a buyer is one in good faith or not, the presence of the said structures should have alerted Metrobank to inquire into said occupancy, instead of tersely and summarily dismissing the same to be informal in nature. Had Metrobank only inquired in such a manner, it appears to be within the realm of reason that it would have had more opportunity in becoming aware of the long-winding history of litigation over the subject lots. Moreover, such inquiry would have helped in the determination of whether said occupants had existing legitimate rights in their occupancy that were worth safeguarding. Instead, it opted to dismiss the said structures as "shanties," the reason for their presence on the subject lots not worth knowing. I submit that this glossing over of said occupancy betrays the failure of Metrobank to observe the standard of diligence due under the circumstances.

It is similarly crucial to observe that Metrobank's sole reliance on the "clean titles" over the subject lots must not be taken at face value but must be closely examined. Specifically, the questioned titles over the subject lots have seen a series of at least two turns of annotations of Notice of *Lis Pendens* by Sps. Duenas, which, even if they were cancelled as Metrobank relies on for its defense, should have still been reflected on the titles. In other words, even with the cancellation of the annotations of adverse claims, it remains demonstrably true as well that the complete history of the annotations on the titles should have still been reflected on the four corners of the titles themselves.

Subject to a verification of the contents of the actual questioned titles in the records of the case, if the questioned titles themselves do reflect, as they should, the two rounds of cancelled annotations which were caused thereon by Sps. Duenas, it is well within reason for the Court to surmise that, at the very least, the existence of these cancelled annotations should have still put Metrobank on notice that the subject lots they were purchasing from AFRDI were at the center of a protracted history of litigations that go all the way back to 1978. The presence of these persistent annotations on the titles themselves, albeit cancelled, should have still raised sufficient caution on the part of Metrobank and brought within its knowledge the knowable level of risk that it was assuming in purchasing the subject lots. To accept Metrobank's default reliance on the IPV doctrine even in the face of circumstantial indications that show otherwise would be perhaps naïve.

Given the foregoing, the central point of query therefore is whether Metrobank's plain reliance on the "clean titles" themselves is sufficient due diligence on its part. I submit that it is not.

On the degree of due diligence required of banks as buyers of properties, the Court has already carefully qualified that financial institutions such as banks are charged with a more exacting standard than that required from an ordinary purchaser. In *Philippine National Bank v. Corpuz*,[29] the Court disabused the erroneous notion that a bank's sole reliance on the title itself is satisfactory, *viz.*:

> As a rule, the Court would not expect a mortgagee to conduct an exhaustive investigation of the history of the mortgagor's title before he extends a loan. **But petitioner PNB is not an ordinary mortgagee; it is a bank. Banks are expected to be more cautious than ordinary individuals in dealing with lands, even registered ones, since the business of banks is imbued with public interest. It is of judicial notice that the standard practice for banks before approving a loan is to send a staff to the property offered as collateral and verify the genuineness of the title to determine the real owner or owners.**
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> One of the CA's findings in this case is that in the course of its verification, petitioner PNB was informed of the previous TCTs covering the subject property. And the PNB has not categorically contested this finding. It is evident from the faces of those titles that the ownership of the land changed from Corpuz to Bondoc, from Bondoc to the Palaganases, and from the Palaganases to the Songcuans in less than three months and mortgaged to PNB within four months of the last transfer.
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> **The above information in turn should have driven the PNB to look at the deeds of sale involved.** It would have then discovered that the property was sold for ridiculously low prices: Corpuz supposedly sold it to Bondoc for just P50,000.00; Bondoc to the Palaganases for just P15,000.00; and the Palaganases to the Songcuans also for just P50,000.00. Yet the PNB gave the property an appraised value of P781,760.00. Anyone who deliberately ignores a significant fact that would create suspicion in an otherwise reasonable person cannot be considered as an innocent mortgagee for value.[30] (Emphasis supplied)

In particular, as noted by the *ponencia*, the rule of reliance on the correctness of the certificate of title admits of exceptions which include when the buyer is a bank such as Metrobank, which is unquestionably enjoined to exert a higher degree of diligence than mere reliance.[31]

Jurisprudentially, the banks have been charged with the duty to check the history of the titles they transact on, which history check was admittedly not undertaken by Metrobank.

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29 626 Phil. 410 (2010).
30 Id. at 412-413.
31 *Ponencia*, p. 23.

Furthermore, in the case of *Philippine Banking Corp. v. Dy*,[32] the Court plainly stated, thus:

> Primarily, it bears noting that the doctrine of "mortgagee in good faith" is based on the rule that all persons dealing with property covered by a Torrens Certificate of Title are not required to go beyond what appears on the face of the title. This is in deference to the public interest in upholding the indefeasibility of a certificate of title as evidence of lawful ownership of the land or of any encumbrance thereon. In the case of banks and other financial institutions, however, greater care and due diligence are required since they are imbued with public interest, failing which renders the mortgagees in bad faith. 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(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.**[33] (Emphasis supplied, citations omitted)

In the case of Metrobank here, its defense of the absence of any annotated encumbrance on the titles themselves fails to suffice. To be sure, the burden of proving that one is a mortgagee or a purchaser in good faith and for value, being a matter of defense, is upon the party asserting the same, as the Court held in *Magsano v. Pangasinán Savings and Loan Bank, Inc.*,[34] thus:

> Furthermore, as correctly pointed out by petitioners, the claim that one is an innocent purchaser for value is a matter of defense. Hence, while petitioners alleged that Sps. Manuel were purchasers in bad faith, **the rule is that he [or she] who asserts the status of a purchaser in good faith and for value has the burden of proving the same, and this *onus probandi* cannot be discharged by mere invocation of the legal presumption of good faith, *i.e.*, that everyone is presumed to act in good faith.**[35] (Emphasis supplied, citations omitted)

Given the foregoing, it appears clearly that Metrobank here is not an IPV. Specifically, Metrobank failed to sufficiently prove that it undertook the due diligence required of it to ensure that the subject lots and the titles thereto were not, as in fact they were, obtained through fraud. For in addition to the suggestion of Justice Japar B. Dimaampao during the deliberations that the good faith must be present not only at the time of the purchase but must be uninterrupted up to the registration of the sale, good faith must also be so demonstrated as free from any suspicion, knowledge or notice of fraud that inevitably negate it. This is the core reason for finding against it.

The registered owner of a land has a superior right over any subsequent buyer who may have obtained a

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32 698 Phil. 750 (2012).
33 Id. at 757.
34 797 Phil. 392 (2016).
35 Id. at 405.

title to his registered property on the occasion of fraud

Apart from the question of whether the ultimate buyer in this case was in good faith, the broader question of consequence that the case at bar presents is this: as between a registered owner and a subsequent buyer claiming to be an IPV, which one does the Torrens system primarily protect? The early case of *Legarda v. Saleeby*[36] (*Saleeby*) is most instructive as to the answer, with the same being rooted on the very rationale of the Torrens system of registration, *viz.*:

> x x x The plaintiffs having secured the registration of their lot, including the wall, were they obliged to constantly be on the alert and to watch all the proceedings in the land court to see that someone else was not having all, or a portion of the same, registered? If that question is to be answered in the affirmative, then the whole scheme and purpose of the torrens system of land registration must fail. **The real purpose of that system is to quiet title to land; to put a stop forever to any question of the legality of the title, except claims which were noted at the time of registration, in the certificate, or which may arise subsequent thereto. That being the purpose of the law, it would seem that once a title is registered the owner may rest secure, without the necessity of waiting in the portals of the court, or sitting in the "[*mirador de su casa*]," to avoid the possibility of losing his land.** Of course, it cannot be denied that the proceeding for the registration of land under the torrens system is judicial (Escueta *vs.* Director of Lands, 16 Phil. Rep., 482). It is clothed with all the forms of an action and the result is final and binding upon all the world. It is an action *in rem*. (Escueta *vs.* Director of Lands (*supra*); Grey Alba *vs.* De la Cruz, 17 Phil. Rep., 49; Roxas *vs.* Enriquez, 29 Phil. Rep., 31; Tyler *vs.* Judges, 175 Mass., 71; American Land Co. *vs.* Zeiss, 219 U. S., 47.)
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> **While the proceeding is judicial, it involves more in its consequences than does an ordinary action. All the world are parties, including the government. After the registration is complete and final and there exists no fraud, there are no innocent third parties who may claim an interest. The rights of all the world are foreclosed by the decree of registration. The government itself assumes the burden of giving notice to all parties.** To permit persons who are parties in the registration proceeding (and they are all the world) to again litigate the same questions, and to again cast doubt upon the validity of the registered title, would destroy the very purpose and intent of the law. **The registration, under the torrens system, does not give the owner any better title than he had. If he does not already have a perfect title, he cannot have it registered.** Fee simple titles only may be registered. The certificate of registration accumulates in one document a precise and correct statement of the exact status of the fee held by its owner. **The certificate, in the absence of fraud, is the evidence of title and shows exactly the real interest of its owner. The *title* once registered, with very few exceptions, should not thereafter be impugned, altered, changed, modified, enlarged, or diminished, except in some direct proceeding permitted by law. Otherwise all security in registered titles would be lost.** A registered title

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[36] 31 Phil. 590 (1915).

> cannot be altered, modified, enlarged, or diminished in a collateral proceeding and not even by a direct proceeding, after the lapse of the period prescribed by law.[37] (Emphasis supplied)

The case of *Saleeby* confronted the Court with two titles issued over the same property, where the Court applied the constructive notice principle and ruled that the act of registration serves as constructive notice to the whole world, including subsequent parties who may transact over the property. Clearly, the rationale in *Saleeby* affirms that the spirit of the Torrens system is the security of the registered owner in the ownership of his or her land. This is the legal basis for the application of the maxim. As Justice Johnson emphatically delivered for the Court therein, should a registered owner not feel secured against illegal and fraudulent removal or negation of his or her ownership rights over a registered property, then the very purpose of the Torrens system has failed.

In addition, the Court, in *Saleeby*, similarly makes salient that the security that the registered owner finds in the system stands on the safeguard of constructive notice that is effected upon registration, which consequently results in the faultless logic that no IPV is possible over an inexistent or void title to a land. More specifically, the Court, in *Saleeby*, likens the rebuttal of the presumption of constructive notice in land registration to that of arguing ignorance of the law, in order to clarify that the constructive notice in the Torrens system of registration is indisputable, regardless of whether the buyer actually verified to this effect, to wit:

> May the purchaser of land which has been included in a "second original certificate" ever be regarded as an "innocent purchaser," as against the rights or interest of the owner of the first original certificate, his [or her] heirs, assigns, or vendee? **The first original certificate is recorded in the public registry. It is never issued until it is recorded. The record is notice to all the world. All persons are charged with the knowledge of what it contains. All persons dealing with the land so recorded, or any portion of it, must be charged with notice of whatever it contains. The purchaser is charged with notice of every fact shown by the record and is presumed to know every fact which the record discloses. This rule is so well established that it is scarcely necessary to cite authorities in its support** (Northwestern National Bank *vs.* Freeman, 171 U. S., 620, 629; Delvin on Real Estate, sections 710, 710 [a]).
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> When a conveyance has been properly recorded such record is constructive notice of its contents and all interests, legal and equitable, included therein. (Grandin *vs.* Anderson, 15 Ohio State, 286, 289; Orvis *vs.* Newell, 17 Conn., 97; Buchanan *vs.* International Bank, 78 Ill., 500; Youngs *vs.* Wilson, 27 N. Y., 351; McCabe *vs.* Grey, 20 Cal., 509; Montefiore *vs.* Browne, 7 House of Lords Cases, 341.)
>
> **Under the rule of notice, it is presumed that the purchaser has examined every instrument of record affecting the title. Such presumption is irrebutable. He is charged with notice of every fact shown by the record and is presumed to know every fact which an**

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[37] Id. at 593-594.

> **examination of the record would have disclosed. This presumption cannot be overcome by proof of innocence or good faith. Otherwise the very purpose and object of the law requiring a record would be destroyed. Such presumption cannot be defeated by proof of want of knowledge of what the record contains anymore than one may be permitted to show that he was ignorant of the provisions of the law.** The rule that all persons must take notice of the facts which the public record contains is a rule of law. The rule must be absolute. Any variation would lead to endless confusion and useless litigation.[38] (Emphasis supplied)

To be sure, *Saleeby* is far from a lone jurisprudential voice on the matter, with subsequent Court pronouncements echoing the same. The conclusiveness of the decree of registration upon and against all persons is reiterated in the cases of *Government of the Philippine Islands v. Zamora*[39] and *Director of Lands v. Insa*,[40] where the Court held that an exception to *Saleeby* is when there is a clear error to the drawn up plans from which the land description in the title is based, in which case the metes and bounds of the property as shown in the title covers shall be corrected.

In the facts of the present case, as the *ponencia* itself finds, the fact of Bernal's fraudulent acquisition of the titles over the subject lots is beyond question.[41] This much was found by Makati RTC Br. 60 in its January 15, 2002 Decision, which held that Bernal unlawfully encroached upon both the Sps. Duenas' and MSI's ownership over the subject lots.[42] It is similarly unrebutted that TCT Nos. 178934, 178935 and 178936 were issued in the name of Bernal as a result of the latter's fraudulent schemes, and are therefore null and void.[43] As noted by the *ponencia*, Sps. Duenas vigilantly caused the annotation of their Affidavit of Adverse Claims on these void titles, even as they filed a complaint before Makati RTC Br. 61 (Civil Case No. 92-2831) to have these void titles declared so.[44] When Makati RTC Br. 61 in the said case ruled for the cancellation of the annotation of petitioners' adverse claims on the said titles, Sps. Duenas appealed to the CA which ultimately ruled in their favor, and the said Decision became final and executory.[45]

Therefore, by virtue of the fact that the said titles were void for being a result of fraud as vindicated by the CA in its final and executory decision, the said titles are, for all intents and definitions, void. This fact is undisturbed by the unexplained error on the part of Makati RTC Br. 61 which, despite the CA's aforementioned final decision, nevertheless issued a Certificate of Finality of its Order to cancel the Notice of *Lis Pendens* on the titles in question,[46] which afforded the **erroneously "clean titles"** which AFRDI and, later, the Metrobank acquired.

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38 Id. at 600-601.
39 41 Phil. 905 (1920).
40 47 Phil. 158 (1924).
41 *Ponencia*, p. 17.
42 Id. at 8-9.
43 Id. at 3.
44 Id. at 4.
45 Id.
46 Id.

On this point, the threshold issue and pragmatic question, both as a matter of law and equity, becomes: should Sps. Duenas as registered owners who remained vigilant in the protection of their rights be permanently prejudiced and wholly divested of their ownership rights due to both a fraudulent scheme by Bernal and the unexplained error by Makati RTC Br. 61 which legitimized void titles? Stated differently, may the frauds and errors that were carried out through no fault of the petitioners be ultimately taken against them?

To borrow Justice Johnson's response to an analogous question in *Saleeby*, to answer these questions in the affirmative is for the very animus of the Torrens system of registration to fail.

I submit that as between a registered owner who is free from contributory neglect and a subsequent buyer who acquires a void title, the Torrens system's safeguarding purpose must operate to secure the ownership rights of the registered owner. To hold otherwise is to send the illogical message that a registered owner cannot afford to rest secured in his or her registered title since even without his or her neglect, fraudulent machinations that wrest his or her properties from him or her may nevertheless be legitimized by both the Torrens system of registration as well as the courts.

I must submit that nothing could be further from the intendment of the laws on land registration.

Jurisprudentially, void titles may not afford protection to subsequent buyers, even those who claim to be IPV, for only those registered titles which have been validly brought within the protective cover of the Torrens system of registration may do so. Titles such as the ones in question in the instant case have been demonstrated as void, and therefore failed to comply with the requirements for registration of voluntary instruments under Sections 53 and 56 of PD 1529, which provide, thus:

> **Section 53.** *Presentation of Owner's Duplicate Upon Entry of New Certificate.* — No voluntary instrument shall be registered by the Register of Deeds, unless the owner's duplicate certificate is presented with such instrument, except in cases expressly provided for in this Decree or upon order of the court, for cause shown.
>
> **The production of the owner's duplicate certificate, whenever any voluntary instrument is presented for registration, shall be conclusive authority from the registered owner to the Register of Deeds to enter a new certificate or to make a memorandum of registration in accordance with such instrument, and the new certificate or memorandum shall be binding upon the registered owner and upon all persons claiming under him, in favor of every purchaser for value and in good faith.**
>
> In all cases of registration procured by fraud, the owner may pursue all his legal and equitable remedies against the parties to such fraud without prejudice, however, to the rights of any innocent holder for value of a certificate of title. **After the entry of the decree of registration on the**

> **original petition or application, any subsequent registration procured by the presentation of a forged duplicate certificate of title, or a forged deed or other instrument, shall be null and void.**
>
> x x x x
>
> **Section 56.** *Primary Entry Book; Fees; Certified Copies.* — Each Register of Deeds shall keep a primary entry book in which, upon payment of the entry fee, he [or she] shall enter, in the order of their reception, all instruments including copies of writs and processes filed with him [or her] relating to registered land. He [or she] shall, as a preliminary process in registration, note in such book the date, hour and minute of reception of all instruments, in the order in which they were received. They shall be regarded as registered from the time so noted, and the memorandum of each instrument, when made on the certificate of title to which it refers, shall bear the same date: *Provided*, that the national government as well as the provincial and city governments shall be exempt from the payment of such fees in advance in order to be entitled to entry and registration. (Emphasis supplied)

In the event that a registration fails to comply with these registration requirements, the underlying transaction is not validly registered, and therefore may not affect the land subject to it. On this point, the case of *Levin v. Bass*[47] (*Levin*) instructs:

> x x x **Under the Torrens system the act of registration is the operative act to convey and affect the land.** Do the entry in the day book of a deed of sale which was presented and filed together with the owner's duplicate certificate of title with the office of the Registrar of Deeds and full payment of registration fees constitute a complete act of registration which operates to convey and affect the land? **In voluntary registration, such as a sale, mortgage, lease and the like, if the owner's duplicate certificate be not surrendered and presented or if no payment of registration fees be made within 15 days, entry in the day book of the deed of sale does not operate to convey and affect the land sold.** In involuntary registration, such as an attachment, levy upon execution, *lis pendens* and the like, entry thereof in the day book is a sufficient notice to all persons of such adverse claim. Eugenio Mintu fulfilled or took all the steps he was expected to take in order to have the Registrar of Deeds in and for the City of Manila issue to him the corresponding transfer certificate of title on the lot and house at No. 326 San Rafael Street sold to him by Joaquin V. Bass. The evidence shows that Eugenio Mintu is an innocent purchaser for value. Nevertheless, the court below held that the sale made by Bass to Mintu is as against Rebecca Levin without force and effect because of the express provision of law which in part says:
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> x x x x
>
> x x x The pronouncement of the court below is to the effect that an innocent purchaser for value has no right to the property because he [or she] is not a holder of a certificate of title to such property acquired by him [or her] for value and in good faith. It amounts to holding that for failure of the Registrar of Deeds to comply and perform his [or her] duty an innocent purchaser for value loses that character — he [or she] is not an "innocent

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47 91 Phil. 419 (1952).

> holder for value of a certificate of title." The court below has strictly and literally construed the provision of law applicable to the case. If the strict and literal construction of the law made by the court below be the true and correct meaning and intent of the lawmaking body, the act of registration — the operative act to convey and affect registered property — would be left to the Registrar of Deeds. True, there is a remedy available to the registrant to compel the Registrar of Deeds to issue to him [or her] the certificate of title but the step would entail expense and cause unpleasantness. **Neither violence to, nor stretching of the meaning of, the law would be done, if we should hold that an innocent purchaser for value of registered land becomes the registered owner and in the contemplation of law the holder of a certificate thereof the moment he presents and files a duly notarized and lawful deed of sale and the same is entered on the day book and at the same time he [or she] surrenders or presents the owner's duplicate certificate of title to the property sold and pays the full amount of registration fees, because what remains to be done lies not within his power to perform.** The Registrar of Deeds is in duty bound to perform it. We believe that is a reasonable and practical interpretation of the law under consideration — a construction which would lead to no inconsistency and injustice.[48] (Emphasis supplied)

In other words, as *Levin* teaches, an IPV becomes the registered owner and the holder of a certificate thereof after he or she: (i) presents and files a duly notarized and lawful deed of sale; (ii) causes the same to be entered in the day book; (iii) surrenders or presents the owner's duplicate certificate of title to the property sold; and (iv) pays the full amount of registration fees. To be sure, while *Levin* was decided under the regime of the Land Registration Act, these requisites remain applicable as they have been carried over and re-adopted under Sections 51, 52, 53 and 56 of PD 1529.

Stated differently, only when the requisites of a valid registration in accordance with the provisions of the land registration laws are complied with can a truly clean title, one that is free from any flaw or defect, be obtained. Any title that is a product of a circumvention of the legal requirements of registration, or one that is otherwise acquired through fraudulent maneuverings as finally adjudged, is hardly what may be deemed "clean" within the contemplation of the law.

As applied to the facts of this case, the registration of the titles in question, void as they are by virtue of the predicate fraud, have notably failed to comply with two of the foregoing requisites, *i.e.*, (i) the presentation and filing a duly notarized and lawful deed of sale, given that the DoAS presented by Bernal in this case was fraudulent; and (ii) the surrender or presentment of the owner's duplicate certificate of title to the property sold, given that in this case, Bernal did not present the same in furtherance of her fraudulent scheme.

These lacking requisites prevented the completion of the registration process, which in turn rendered the titles in question not only void but also legally inexistent, for not having been validly registered. Consequently, for being void and inexistent for not having been validly registered, they cannot

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48 Id. at 436-438.

be afforded the protections under the Torrens system, including the often relied upon protection of an IPV and the constructive notice rule.

Importantly, we must hark back to these safeguards that **ensure that only valid and lawfully registered titles enjoy the security afforded by the Torrens registration system**, lest we loosely apply and yield these protections where they are not merited. Worse still, it is imperative that we qualify that only lawfully registered titles enjoy these protections, or else the Torrens system will lend itself most serviceable to the laundering of fraudulent titles and the facilitation and legitimization of spurious ones.

Set against the backdrop of prevalent land-grabbing designs and acquisitions which often rise to dizzying scales, the Court's ability to draw lines and distinctions where the very spirit of the laws intended them will profoundly impact the integrity of the country's land registration system. The Court's careful qualification in the instant case will ensure that the Torrens system is designed for the **ease of lawful transactions** over real properties, not the enabling of laundering unlawful ones.

Bearing the above in mind, I agree with the *ponencia* and vote to **GRANT** the instant petition.

ALFREDO BENJAMIN S. CAGUIOA
Associate Justice

CERTIFIED TRUE COPY

MARIA LUISA M. SANTILLA
Deputy Clerk of Court and
Executive Officer
OCC-En Banc, Supreme Court