

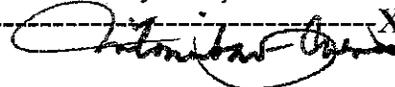
EN BANC

G.R. No. 250636 – MERLINDA PLANA, Petitioner, v. LOURDES TAN CHUA AND HEIRS OF RAMON CHIANG, Respondents.

Promulgated:

January 10, 2023

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SEPARATE CONCURRING OPINION

LEONEN, J.:

Through a fraudulent deed of definite sale, Ramon Chiang (Ramon) successfully transferred to himself the titles to five lots owned by Merlinda Relano (Merlinda) and her late husband Nelson Plana (Nelson). Ramon later sold four of the lots to one Serafin Modina (Serafin), while the fifth lot—Lot 10031, covered by Transfer Certificate of Title (TCT) No. T-86916—was mortgaged to Lourdes Chua (Lourdes) in 1996.¹ In 1999, this Court, in *Modina v. Court of Appeals*,² declared the deed of definite sale and the subsequent sale of the four lots to Serafin void.

In 2000, Merlinda filed an action for reconveyance to recover Lot 10031 from Ramon and Lourdes.³ After due proceedings, the Regional Trial Court: (1) declared void the sale of Lot 10031 to Ramon and its subsequent mortgage to Lourdes; (2) ordered the cancellation of TCT No. T-86916 and the annotation of the mortgage; (3) reinstated TCT No. T-57961 in the name of Nelson and Merlinda; and (4) ordered Ramon to pay Merlinda moral and exemplary damages and attorney's fees.⁴

Lourdes appealed, insisting that the mortgage was valid because she was a mortgagee in good faith.⁵

The Court of Appeals affirmed the Regional Trial Court's Decision with modification. Holding that Lourdes was a mortgagee in good faith, making the mortgage valid, it ordered the annotation of the mortgage on TCT No. T-59761.⁶

¹ *Ponencia*, pp. 2-3.

² 376 Phil 44 (1999) [Per J. Furisora, Third Division].

³ *Ponencia*, p. 2.

⁴ *Id.* at 3-4.

⁵ *Id.* at 4.

⁶ *Id.*



Agreeing in part with the Court of Appeals, the *ponencia* held that Lourdes was a mortgagee in good faith because “no circumstance was adduced which would have caused her to doubt [the] validity”⁷ of Ramon’s title. Moreover, since Ramon had previously mortgaged the same property to a bank, which accepted the property as collateral, it found that Lourdes could not be faulted for relying on Ramon’s title.⁸

Nonetheless, the *ponencia* held that Lourdes’s mortgage over the property should be canceled, because the right of a mortgagee in good faith cannot prevail over that of the true innocent owner of the property. As Ramon’s title had previously been declared with finality to be void, Lourdes could not have acquired a better right.⁹

I concur in the result.

Indeed, the right of a mortgagee in good faith cannot prevail over the right of the true owner who had no participation or contribution, either by fault or by negligence, in the transfer certificate of title relied on by the mortgagee. In *Spouses Bautista v. Spouses Jalandoni*:¹⁰

Where the owner, however, could not be charged with negligence in the keeping of its duplicate certificates of title or with any act which could have brought about the issuance of another title relied upon by the purchaser or mortgagee for value, then the innocent registered owner has a better right over the mortgagee in good faith. For “the law protects and prefers the lawful holder of registered title over the transferee of a vendor bereft of any transmissible rights.”

In the case of *C.N. Hodges v. Dy Buncio & Co., Inc.*, which was relied upon by the Court in the cases of *Baltazar v. Court of Appeals*, *Torres v. Court of Appeals*, and in the more recent case of *Sanchez v. Quinio*, the Court held that:

The claim of indefeasibility of the petitioner's title under the Torrens land title system would be correct if previous valid title to the same parcel of land did not exist. The respondent had a valid title . . . It never parted with it; it never handed or delivered to anyone its owner's duplicate of the transfer certificate of title; it could not be charged with negligence in the keeping of its duplicate certificate of title or with any act which could have brought about the issuance of another certificate upon which a purchaser in good faith and for value could rely. If the petitioner's contention as to indefeasibility of his title should be upheld, then registered owners without the least fault on their part could be divested of their title and deprived of their property. Such disastrous results which would shake and destroy the stability of land

⁷ *Id.* at 7-8.

⁸ *Id.* at 8.

⁹ *Id.* at 10.

¹⁰ 722 Phil. 144 (2013) [Per J. Mendoza, Third Division].

titles had not been foreseen by those who had endowed with indefeasibility land titles issued under the Torrens system.

Thus, in the case of *Tomas v. Philippine National Bank*, the Court stated that:

We, indeed, find more weight and vigor in a doctrine which recognizes a better right for the innocent original registered owner who obtained his certificate of title through perfectly legal and regular proceedings, than one who obtains his certificate from a totally void one, as to prevail over judicial pronouncements to the effect that one dealing with a registered land, such as a purchaser, is under no obligation to look beyond the certificate of title of the vendor, for in the latter case, good faith has yet to be established by the vendee or transferee, being the most essential condition, coupled with valuable consideration, to entitle him to respect for his newly acquired title even as against the holder of an earlier and perfectly valid title.¹¹ (Citations omitted)

Spouses Bautista similarly involved properties mortgaged by persons who acquired titles to them through an agent purportedly acting for the true owners. This Court found the deed of sale void because the agent was clearly unauthorized. As to who has a better right over the property, this Court concluded that whatever rights the mortgagee in good faith must yield to the superior rights of the true owners, as no one can acquire a better right than what the transferor has.¹²

However, I disagree with the *ponencia*'s finding that respondent Lourdes was a mortgagee in good faith.

While a mortgagee dealing with registered land is not required to inquire further than what the Torrens certificate of title indicates on its face,¹³ a mortgagee cannot close their eyes on known circumstances that should put a reasonably cautious person on guard.¹⁴ In *Spouses Domingo v. Reed*.¹⁵

The honesty of intention that constitutes good faith implies freedom from knowledge of circumstances that ought to put a prudent person on inquiry. Good faith consists in the belief of the possessors that the persons from whom they received the thing are its rightful owners who could convey their title. Good faith, while always presumed in the absence of proof to the contrary, requires this *well-founded* belief.¹⁶ (Citation omitted)

¹¹ *Id.* at 158–160.

¹² *Id.* at 160.

¹³ *Claudio v. Spouses Saraca*, 767 Phil. 857, 867 (2015) [Per J. Mendoza, Second Division].

¹⁴ *Id.* at 869.

¹⁵ 513 Phil. 339 (2005) [Per J. Panganiban, Third Division].

¹⁶ *Id.* at 353.

When a prospective mortgagee is faced with circumstances that would arouse their suspicion, they must take precautionary steps, if they are to qualify as a mortgagee in good faith:

It is a well-settled rule that a purchaser or mortgagee cannot close his eyes to facts, which should put a reasonable man upon his guard, and then claim that he acted in good faith under the belief that there was no defect in the title of the vendor or mortgagor. His mere refusal to believe that such defect exists, or his willful closing of his eyes to the possibility of the existence of a defect in the vendor's or mortgagor's title, will not make him an innocent purchaser or mortgagee for value, if it afterwards develops that the title was in fact defective, and it appears that he had such notice of the defects as would have led to its discovery had he acted with the measure of precaution which may be required of a prudent man in a like situation . . .¹⁷ (citations omitted)

“The status of a mortgagee in good faith is never presumed but must be proved by the person invoking it.”¹⁸

Here, respondent Lourdes's claim that she acted in good faith fails to persuade given the circumstances surrounding the mortgage. As petitioner Merlinda alleged, respondent Lourdes was aware of the *Modina* ruling, where this Court declared void the deed of definite sale through which Ramon acquired title over Merlinda and Nelson's properties.¹⁹ Even though Lot 10031 was never mentioned in *Modina*, as Lourdes claims, she should have been alerted as to probe further on Ramon's title and right over the mortgaged property. She had the means as she was acquainted with Nelson and Merlinda. Had she done so, she would have discovered Ramon's anomalous title.

Moreover, respondent Lourdes was co-member with Ramon's son in the Lion's Club,²⁰ even as Ramon's title indicates his civil status as single.²¹ This should have prompted her to inquire further or at least confer with Ramon's son, since one's civil status has bearing on their capacity to dispose of or mortgage property.

For failing to investigate despite knowing circumstances that would cause suspicion, respondent Lourdes was negligent in protecting her interests. She deliberately closed her eyes on facts that should have put a reasonable person on guard. In *Dadis v. Spouses De Guzman*,²² this Court held that “[a] person who deliberately ignores a significant fact that could create suspicion in an otherwise reasonable person is not an innocent mortgagee for value.”²³

¹⁷ *Crisostomo v. Court of Appeals*, 274 Phil. 1134 (1991) [Per J. Paras, Second Division].

¹⁸ *Dadis v. Spouses De Guzman*, 810 Phil. 749, 762 (2017) [Per J. Peralta, Second Division].

¹⁹ *Ponencia*, p. 3.

²⁰ *Id.* at 10.

²¹ *Id.* at 7.

²² 810 Phil. 749 (2017) [Per J. Peralta, Second Division].

²³ *Id.* at 764.

Hence, respondent Lourdes was not a mortgagee in good faith. The Court of Appeals, therefore, erred in ordering the annotation of Lourdes's mortgage on Nelson and Merlinda's title.

It also appears that respondent Lourdes has already been fully paid the PHP 130,000.00 loan secured by the mortgage. In Civil Case No. 25285, an action for accounting and damages that Ramon filed against her in 1998, the remaining balance of PHP 83,500.00 was already released to her as per their partial compromise.²⁴ She did not disclose this fact. Neither did she disclose the pendency of Civil Case No. 25285 all throughout the lower court proceedings.

I therefore concur in the *ponencia* directing respondent Lourdes and her counsel to show cause why they should not be cited in contempt of court for not disclosing the pendency of Civil Case No. 25285, which was material and relevant in the speedy disposition of this case.

ACCORDINGLY, I vote to **GRANT** the Petition.



MARVIC M.V.F. LEONEN
Senior Associate Justice

²⁴ *Ponencia*, p. 12.