



Republic of the Philippines
Supreme Court
 Manila

SECOND DIVISION

<p>ONOFRE SUBSTITUTED BY HIS HEIRS, NAMELY: ROSALINA, FROILAN, MA. NELSON, GERMAN, ALEXANDER, MAY, ABRAHAM, AND AFRICA, ALL SURNAMED ANDRES,</p>	<p>ANDRES, G.R. No. 173548 FERDINAND, ERIBERTO, CLEOFE, GLORIA, ABRAHAM, AND AFRICA, ALL SURNAMED ANDRES,</p>	<p>Present: <i>CARPIO, J., Chairperson,</i> <i>PERALTA,*</i> <i>DEL CASTILLO,</i> <i>REYES,** and</i> <i>LEONEN, JJ.</i></p>
---	--	---

Petitioners,

-versus-

PHILIPPINE NATIONAL BANK,
 Respondents.

Promulgated:

OCT 15 2014

Atty. Cabalag

X-----X

DECISION

LEONEN, J.:

A bank that accepts a mortgage based upon a title which appears valid on its face and after exercising the requisite care, prudence, and diligence appropriate to the public interest character of its business can be deemed a mortgagee in good faith. The subsequent consolidation of title in its name after a valid foreclosure shall be respected notwithstanding later proof showing that the title was based upon a void transaction.

* Designated additional member per raffle dated October 13, 2014.

** Designated acting member per Special Order No. 1844 dated October 14, 2014.

l

This case involves a 4,634-square-meter parcel of land in Nueva Ecija mortgaged to respondent Philippine National Bank (PNB). PNB later foreclosed the property and consolidated title in its name.¹ Petitioner Onofre Andres, the uncle of mortgagors Reynaldo Andres and his wife, Janette de Leon, filed a complaint for cancellation of title and reconveyance of the property alleging that title in mortgagor's name was based on a falsified document denominated as "Self-Adjudication of Sole Heir."

The trial court ruled in favor of Onofre Andres by voiding all derivative titles from TCT No. NT-7267. The Court of Appeals modified this decision by declaring as valid and existing TCT No. N-24660 in PNB's name. Onofre Andres filed the instant petition² assailing the Court of Appeals' decision and resolution.

The Spouses Victor and Filomena Andres acquired during their marriage a 4,634-square-meter parcel of land in Sto. Domingo, Nueva Ecija, covered by TCT No. NT-7267.³

They had nine children.⁴ Among them were Onofre Andres and Roman Andres who is the father of Reynaldo Andres.⁵ Victor passed away on June 15, 1955, while his wife, Filomena, died on April 23, 1973.⁶

After Victor's death, or on July 1, 1965,⁷ his widow, Filomena, and six of their children — Onofre, Roman, Juana, Guillermo, Felisa,⁸ and Maxima — agreed in an extrajudicial partition with sale to adjudicate one half of the land covered by TCT No. NT-7267 to each of them pro indiviso.⁹ This document also provides that for ₱1,000.00, they all sold, transferred, and conveyed to Roman Andres their respective rights and participation to the one-half portion of the property.¹⁰ This was annotated on the title.¹¹

Consequently, TCT No. NT-7267 was cancelled, and a new title was issued on August 20, 1965 in the name of Roman Andres and his wife, Lydia Echaus-Andres, under TCT No. NT-57731.¹²

¹ *Rollo*, p. 59. "As buyer in the auction sale of the subject property, defendant bank consolidated title over it and was issued the same (TCT No. N-24660) on May 27, 2002."

² The petition was filed pursuant to Rule 45 of the Rules of Court.

³ *Rollo*, pp. 34–35 and 58.

⁴ The nine children were Onofre, Guillermo, Sixto, Roman, Juana, Melissa, Maxima, Ofelia, and Araceli, all surnamed Andres.

⁵ *Rollo*, p. 36.

⁶ *Id.* at 34 and 58.

⁷ *Id.* at 36.

⁸ The decision of the trial court used the name, "Felisa," instead of "Melissa."

⁹ *Id.* at 58.

¹⁰ *Id.* at 37–38, 55–56, and 59.

¹¹ *Id.* at 55.

¹² *Id.* at 36, 38, 56, and 59.

PNB alleged that on October 22, 1968, the Spouses Roman and Lydia Andres mortgaged the property to PNB for ₱3,000.00.¹³ According to PNB, no objection was made, even after the mortgage had been cancelled on July 20, 1972.¹⁴

PNB also alleged that on October 14, 1992, the Nueva Ecija Regional Trial Court¹⁵ cancelled the guardianship issued in favor of the Security Bank and Trust Company and transferred ownership of the properties of the deceased, Spouses Roman and Lydia Andres, to their only living heir, Reynaldo Andres.¹⁶

TCT No. NT-57731 was consequently cancelled, and title was transferred to the Spouses Reynaldo Andres and Janette de Leon, under TCT No. (NT-239548) NT-7725 on December 27, 1994.¹⁷

On September 4, 1995, the Spouses Reynaldo Andres and Janette de Leon used this title and mortgaged the property to PNB for a ₱1.2 million loan.¹⁸ This was without the consent of Onofre Andres.¹⁹

Onofre Andres, claiming ownership over the property, filed on November 13, 1996 a complaint for cancellation of title, reconveyance of property and damages, with prayer for the issuance of a preliminary injunction against his nephew Reynaldo Andres and Reynaldo's wife, Janette de Leon, PNB, Lydia Echaus-Andres, and the Register of Deeds of Nueva Ecija.²⁰

The complaint alleged that on November 8, 1994, Onofre Andres' nephew Reynaldo Andres was in collusion with his mother, Lydia Echaus-Andres, in executing a falsified document denominated as "Self-Adjudication of Sole Heir." This stated that Reynaldo Andres was the sole heir of his father, Roman Andres, who died on October 12, 1968, and his mother who died on December 15, 1969.²¹ However, his mother was then still alive and his father, Roman Andres, died only on May 29, 1990.²²

PNB denied the material allegations in the complaint. It argued that it conducted an investigation on the property.²³ The title presented to PNB by

¹³ Id. at 36 and 55. The Court of Appeals reported this date as October 22, 1965.

¹⁴ Id. The Court of Appeals reported this date as July 20, 1973.

¹⁵ Branch 37 of Regional Trial Court of Baloc, Sto. Domingo, Nueva Ecija.

¹⁶ *Rollo*, pp. 36–37 and 55.

¹⁷ Id. at 35, 37, 55, and 59.

¹⁸ Id. at 59.

¹⁹ Id. at 36 and 55.

²⁰ Id. at 35 and 54.

²¹ Id. at 59.

²² Id.

²³ Id.

Reynaldo Andres and his wife was clear and free from adverse claims.²⁴

For their part, the Spouses Reynaldo Andres and Janette de Leon claimed that from the time title was issued in the name of Reynaldo Andres' parents, until title transferred to them on December 27, 1994, his father, Roman Andres, had exercised acts of ownership over the property until they succeeded in its possession.²⁵ Onofre Andres' possession was merely "tolerated [because] of their close relationship."²⁶ The Spouses Reynaldo Andres and Janette de Leon also raised prescription and estoppel.²⁷

In his reply, Onofre Andres countered that the extrajudicial partition with sale executed on July 1, 1965 was fictitious, thus, void.²⁸

Onofre Andres argued that (1) this was not published in a newspaper of general circulation; (2) it was executed only to accommodate the request of Roman Andres and his wife who wanted to mortgage the property; (3) three of the legitimate heirs of the late Victor and Filomena Andres, who were then still living, namely, Sixto, Ofelia, and Araceli, did not participate in its execution; and (4) there was no consideration for the alleged sale.²⁹

Even assuming that the document was valid, only a one-half undivided portion of the land was sold since the other half was the conjugal share of Filomena Andres who was then still living.³⁰ The residential building did not exist yet at the time of the questioned partition so this could not have been sold to Roman Andres.³¹

Onofre Andres also denied that his continuous possession of the property was by mere tolerance.³²

This case was filed as early as November 13, 1996, but the entire Nueva Ecija Regional Trial Court was razed by fire.³³ The records of this case were among those destroyed that needed reconstitution.³⁴

The parties submitted documents and pleadings forming part of the reconstituted records, and the case was set for the retaking of testimonies

²⁴ Id. at 37 and 55.

²⁵ Id. at 38 and 56.

²⁶ Id.

²⁷ Id.

²⁸ Id.

²⁹ Id. at 38–39 and 56.

³⁰ Id. at 39 and 56.

³¹ Id.

³² Id.

³³ Id. at 39–40.

³⁴ Id. at 40.

and presentation of evidence.³⁵ Unfortunately, Onofre Andres' testimony could not be retaken since he was already bedridden at that time.³⁶

It appears that PNB was considered to have waived further presentation of evidence when its counsel failed to appear at the hearing despite notice.³⁷ The trial court denied PNB's motion for reconsideration to be allowed to present evidence.³⁸

Onofre Andres died on March 20, 2001 when the case was in the presentation of evidence stage. He was substituted by his surviving heirs.³⁹

The Regional Trial Court⁴⁰ rendered its decision⁴¹ on November 7, 2003 in favor of Onofre Andres:

WHEREFORE, premises considered, judgment is hereby rendered as follows:

1. Declaring null and void all derivative titles from TCT No. NT-7267 specifically TCT No. NT-57731, TCT No. NT-239548 and TCT No. NT-24660, and ordering the concerned Register of Deeds to reinstate said TCT NT-7267 in the names of its original owners, Victor Andres and Filomena Ramos.
2. Ordering defendant spouses Reynaldo Andres and Janette de Leon, jointly and severally, to pay plaintiff or his substitutes the sum of ₱100,000.00 by way of moral damages.
3. Ordering defendant spouses Reynaldo Andres and Janette de Leon, jointly and severally, to pay plaintiff or his substitutes the sum of ₱50,000.00 by way of exemplary damages;
4. Ordering defendant spouses Reynaldo Andres and Janette de Leon, jointly and severally, to pay plaintiff or his substitutes attorney's fees in the sum of ₱30,000.00, and to pay the costs of suit.

SO ORDERED.⁴²

³⁵ Id.

³⁶ Id. at 41.

³⁷ Id. at 40.

³⁸ Id. at 65.

³⁹ Id. at 40–41.

⁴⁰ The decision was penned by Judge Lauro G. Sandoval of Branch 37 of the Regional Trial Court of Nueva Ecija.

⁴¹ *Rollo*, pp. 54–62.

⁴² Id. at 61–62.

The Court of Appeals⁴³ rendered its decision⁴⁴ on December 13, 2005, modifying the trial court's decision in that TCT No. N-24660 in the name of PNB was declared valid and existing. The rest of the decision stands.⁴⁵ It also denied reconsideration⁴⁶ on July 5, 2006, prompting Onofre Andres to file the instant petition.⁴⁷

Petitioner heirs of Onofre Andres argue that (1) there is no legal basis to uphold the validity of PNB's title as it was derived from a void title;⁴⁸ (2) *Cabuhad v. Court of Appeals*⁴⁹ on innocent mortgagees for value is not applicable;⁵⁰ (3) PNB is “not a mortgagee in good faith”;⁵¹ (4) there was no valid mortgage, thus, no valid foreclosure and auction sale;⁵² and (5) “trial courts are in [a] better position to determine questions involving [the] credibility of witnesses.”⁵³

Petitioner heirs pray that the assailed Court of Appeals' decision and resolution be set aside, and the trial court's November 7, 2003 decision be reinstated.⁵⁴

In its comment, PNB countered that “a defective title may be a source of a completely legal and valid title in the hands of an innocent purchaser for value.”⁵⁵ *Cruz v. Bancom Finance Corporation*⁵⁶ cited by petitioner heirs is off-tangent and inapplicable.⁵⁷ On the other hand, *Cabuhad v. Court of Appeals* on innocent mortgagees in good faith involved similar facts and the same legal issue.⁵⁸

PNB adds that the issue of whether it is a mortgagee in good faith involves a factual issue not within this court's power of review.⁵⁹ The issue on the validity of the foreclosure proceedings and sale was not raised in the complaint, thus, cannot be raised for the first time on appeal.⁶⁰

Lastly, PNB contends that the factual findings of the Court of Appeals

⁴³ The decision was penned by Associate Justice Jose L. Sabio, Jr., and concurred in by Associate Justices Jose C. Mendoza and Arturo G. Tayag, Court of Appeals, Sixteenth Division.

⁴⁴ *Rollo*, pp. 33–47.

⁴⁵ *Id.* at 47.

⁴⁶ *Id.* at 49–53.

⁴⁷ *Id.* at 8–28.

⁴⁸ *Id.* at 16.

⁴⁹ 418 Phil. 451 (2001) [Per J. Ynares-Santiago, First Division].

⁵⁰ *Rollo*, pp. 20 and 156.

⁵¹ *Id.* at 20.

⁵² *Id.* at 26.

⁵³ *Id.*

⁵⁴ *Id.* at 27.

⁵⁵ *Id.* at 132.

⁵⁶ 429 Phil. 225 (2002) [Per J. Panganiban, Third Division].

⁵⁷ *Rollo*, pp. 134–135.

⁵⁸ *Id.* at 137.

⁵⁹ *Id.*

⁶⁰ *Id.* at 138.

are deemed final and conclusive by this court.⁶¹

Petitioner heirs filed a reply reiterating their arguments and submitting certified true copies of the property's tax declarations to support their contentions.⁶²

Thus, the issues before this court for resolution are:

- I. Whether a valid title can be derived from a void title; and
- II. Whether PNB is an innocent mortgagee for value and in good faith, thus, its right on the property is protected even if the mortgagor obtained title through fraud.

A petition for review on certiorari shall raise only questions of law.⁶³ The core of the issues presented requires a determination of whether PNB was in good faith and exercised due diligence in accepting the property mortgaged by Spouses Reynaldo Andres and Janette de Leon. These are questions of fact⁶⁴ that fall outside the ambit of this court's power of review.

This court is not a trier of facts that routinely re-examines evidence presented. Factual findings by the Court of Appeals are, thus, generally considered binding and conclusive upon this court.⁶⁵

The rule against entertaining factual questions admits of exceptions,⁶⁶ but none are present in this case. This court finds no reason to overturn the findings of the Court of Appeals.

⁶¹ Id. at 139.

⁶² Id. at 159.

⁶³ RULES OF CIVIL PROCEDURE, Rule 45, sec.1.

SEC. 1. *Filing of petition with Supreme Court.* — A party desiring to appeal by *certiorari* from a judgment or final order or resolution of the Court of Appeals, the Sandiganbayan, the Regional Trial Court or other courts whenever authorized by law, may file with the Supreme Court a verified petition for review on *certiorari*. *The petition shall raise only questions of law which must be distinctly set forth.* (Emphasis supplied)

⁶⁴ *Philippine Banking Corporation v. Dy*, G.R. No. 183774, November 14, 2012, 685 SCRA 567, 574 [Per J. Perlas-Bernabe, Second Division].

⁶⁵ *Republic of the Philippines v. Heirs of Ramos*, G.R. No. 169481, February 22, 2010, 613 SCRA 315, 324 [Per J. Del Castillo, Second Division].

⁶⁶ The exceptions are: "(1) when the inference made is manifestly mistaken, absurd or impossible; (2) when there is grave abuse of discretion; (3) when the finding is grounded entirely on speculations, surmises, or conjectures; (4) when the judgment of the CA is based on misapprehension of facts; (5) when the findings of fact are conflicting; (6) when the CA, in making its findings, went beyond the issues of the case and the same is contrary to the admissions of both parties; (7) when the findings of the CA are contrary to those of the trial court; (8) when the findings of fact are conclusions without citation of specific evidence on which they are based; (9) when the CA manifestly overlooked certain relevant facts not disputed by the parties and which, if properly considered, would justify a different conclusion; and (10) when the findings of fact of the CA are premised on the absence of evidence and are contradicted by the evidence on record." *Republic of the Philippines v. Heirs of Ramos*, G.R. No. 169481, February 22, 2010, 613 SCRA 315, 324–325 [Per J. Del Castillo, Second Division].

Petitioner heirs submit that the trial court “did not rule categorically on the issue of good faith interposed by the respondent bank[; however], it ruled that since the mortgage was without object and cause, it was parenthetically void such that the defense of and protestation of good faith is thus rendered of no consequence.”⁶⁷ In support of their contention that PNB’s title was derived from a void title, petitioner heirs cited at length the trial court decision:

A close examination of the said deed of partition will show that not all the children of the spouses Victor Andres and Filomena Ramos were parties nor signatories thereto. Specifically, only six of the nine children of said spouses executed the supposed extra-judicial partition which, in effect, preterited three others, namely: Sixto, Ofelia and Araceli.

The extra-judicial partition is thus vitiated by what appeared to have been a deliberate omission therein of the said three children. The obvious explanation to that is what is claimed by the plaintiff: that the deed was simulated to afford financial accommodation to their brother Roman.

More significantly, the deed very clearly provided that only one half of the subject property was covered by partition since the other half was recognized as the conjugal share of Victor Andres’ spouses [sic], Filomena Ramos.

Even assuming the validity of the partition as executed, only one-half of the subject property should have been transferred, by virtue thereof, to Roman Andres.

Insofar, therefore, as the Extra-Judicial Partition with Sale was made the basis for the transfer of TCT No. NT-7267 to TCT No. NT-57731, the same may not be characterized other than as *absolutely simulated or fictitious contract or document. As such, the transfer effected through it was void ab initio and, in legal contemplation, never existed.*

By the same token, any subsequent transfer from the void TCT No. NT-57731, could not have had any valid and binding effect so as to constitute the transferee thereof as the legal owner of the property embraced and described therein.

Interestingly, even the manner defendant Andres effected the transfer of TCT No. NT-57731 to himself was legally flawed.

To be sure, the issuance of TCT No. NT-239548 in the name of defendant Reynaldo Andres was by way of a document styled as Self Adjudication of Sole Heir (Exh. “D”) executed by defendant Reynaldo Andres himself. In this document, he declared that Roman Andres died on October 12, 1968, and his mother died Lydia Echaus, on December 15, 1969; that they died with the subject property as their only property, that he is the only child and heir of the decedents and for that reason he declared the estate to be his inheritance and adjudicated the same unto himself extra-judicially pursuant to Section 1, Rule 74 of the Rules of

⁶⁷ *Rollo*, pp. 26–27.

Court.

It appears, however, that at the time the Self-Adjudication of Sole Heir was executed by defendant Reynaldo Andres, it is not true that his mother, Lydia Echaus, was already dead. In fact, up to the present she [is] still alive. Not only that, defendant Reynaldo Andres is not really the sole child of spouses Roman Andres and Lydia Echaus because they have other children, namely: Cynthia and Vienna who are both in the United States of America.⁶⁸ (Emphasis supplied)

On the other hand, the Court of Appeals ascertained good faith on the part of PNB.

Preliminarily, the Court of Appeals mentioned that it is “in quandary as to whether or not the appellant PNB indeed was able to present evidence for and on its own behalf [but a] close scrutiny of the records of this case would disclose that Gerardo Pestaño was presented as a witness for the defendant-PNB and his testimony was adopted by the defendants-spouses.”⁶⁹

It then found that PNB followed the standard practice of banks before approving a loan by sending representatives to inspect the property offered as collateral.⁷⁰ PNB even investigated on “where and from whom the title . . . originated.”⁷¹

According to the Court of Appeals, evidence disclosed that Spouses Reynaldo Andres and Janette de Leon submitted TCT No. (NT-239548) N-7725 as proof of their ownership. PNB’s property appraiser, Gerardo Pestaño, conducted an investigation and verified the status of the property with the Register of Deeds and Assessor's Office.⁷²

On August 8, 1995, Gerardo Pestaño went to the property and personally met with the borrowers, Spouses Reynaldo Andres and Janette de Leon, who told him they were living in the property. He appraised the residential building then being constructed. Upon Gerardo Pestaño’s request, Reynaldo Andres submitted the property’s tax declaration.⁷³

Gerardo Pestaño also went to the Municipal Trial Court to check on any pending cases, particularly on estafa, filed against Spouses Reynaldo Andres and Janette de Leon. Upon verification from the Register of Deeds, he learned that all previous annotations on the titles have been cancelled.⁷⁴

⁶⁸ Id. at 16–17 and 59–60.

⁶⁹ Id. at 43.

⁷⁰ Id. at 44.

⁷¹ Id.

⁷² Id.

⁷³ Id. at 44–45.

⁷⁴ Id. at 45.

The Court of Appeals found that there was nothing on the face of the titles that would excite any suspicion of an irregular issuance.⁷⁵ Reynaldo Andres' parents had even previously mortgaged the property to a bank in 1965, and the property was accepted.⁷⁶

We affirm the decision of the Court of Appeals.

The Court of Appeals quoted *Cabuhad v. Court of Appeals* in holding that “when a mortgagee relies upon what appears on the face of a Torrens title and loans money in all good faith on the basis of the title in the name of the mortgagor, only thereafter to learn that the latter’s title was defective, being thus an innocent mortgagee for value, his or her right or lien upon the land mortgaged must be respected and protected, even if the mortgagor obtained her title thereto through fraud.”⁷⁷

Petitioner heirs argued the inapplicability of *Cabuhad* to the instant case. They explained how *Cabuhad* involved a private individual mortgagee while respondent was a universal bank. They added that unlike in *Cabuhad*, good faith was not duly proven by PNB.⁷⁸

Petitioner heirs then cited *Cruz v. Bancom Finance Corporation* for its holding that “[the bank] should not have simply relied on the face of the Certificate of Title to the property, as its ancillary function of investing funds required a greater degree of diligence. . . .”⁷⁹

The Civil Code is clear that only the absolute owner of a property can mortgage such property.⁸⁰ The law also provides that absolutely simulated or fictitious contracts are void and inexistent.⁸¹ Consequently, these fictitious contracts convey no rights.

The trial court has declared as void all titles that originated from the contracts it found to be void, such as the extrajudicial partition with sale in favor of Roman Andres, and the “Self-Adjudication of Sole Heir” in favor of Reynaldo Andres. This was affirmed by the Court of Appeals.

⁷⁵ Id.

⁷⁶ Id. at 45–46.

⁷⁷ *Cabuhad v. Court of Appeals*, 418 Phil. 451, 458–459 (2001) [Per J. Ynares-Santiago, First Division].

⁷⁸ *Rollo*, pp. 20–21.

⁷⁹ *Cruz v. Bancom Finance Corporation*, 429 Phil. 225, 241 (2002) [Per J. Panganiban, Third Division], citing *Government Service Insurance System v. Court of Appeals*, 350 Phil. 654, 662 (1998) [Per J. Romero, Third Division].

⁸⁰ CIVIL CODE, art. 2085(2).

⁸¹ CIVIL CODE, art. 1409(2).

The issue now is whether a valid title in favor of PNB can be derived from these void titles.

This court reiterated the good faith doctrine that applies to innocent mortgagees for value in the 2012 case of *Philippine Banking Corporation v. Dy*.⁸²

While it is settled that a simulated deed of sale is null and void and therefore, does not convey any right that could ripen into a valid title, it has been equally ruled that, for reasons of public policy, *the subsequent nullification of title to a property is not a ground to annul the contractual right which may have been derived by a purchaser, mortgagee or other transferee who acted in good faith*.⁸³ (Emphasis supplied, citations omitted)

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.⁸⁴

The general rule allows every person dealing with registered land to rely on the face of the title when determining its absolute owner.⁸⁵ Thus, cases like *Cabuhat* have held that “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, has no obligation to undertake further investigation.”⁸⁶ The protection of innocent mortgagees for value finds support in the Land Registration Act:

Then in *Penullar v. PNB*, this Court resolved a similar issue ruling that *Section 38 of the Land Registration Act* places an innocent mortgagee for value under the mantle of protection accorded to innocent purchasers for value.

⁸² G.R. No. 183774, November 14, 2012, 685 SCRA 567 [Per J. Perlas-Bernabe, Second Division].

⁸³ Id. at 574.

⁸⁴ See O. E. Williamson, *Transaction-Cost Economics: The Governance of Contractual Relations*, 22 JOURNAL OF LAW AND ECONOMICS 233, 239–242 (1979). See also R. H. Coase, *The Problem of Social Cost*, 3 JOURNAL OF LAW AND ECONOMICS 1–44 (1960).

⁸⁵ See *Cruz v. Bancom Finance Corporation*, 429 Phil. 225, 237 (2002) [Per J. Panganiban, Third Division].

⁸⁶ *Cabuhat v. Court of Appeals*, 418 Phil. 451, 460 (2001) [Per J. Ynares-Santiago, First Division].

Furthermore, *Section 39 of Act No. 496* provides that every person receiving a certificate of title in pursuance of a decree of registration, and every subsequent purchaser (or mortgagee) of registered land who takes a certificate of title for value in good faith, shall hold the same free of all encumbrance except those noted on said certificate. . . .⁸⁷ (Citations omitted)

Section 38 of Act No. 496 in what is now Section 32 of Presidential Decree No. 1529 reads:

SEC. 32. Review of decree of registration; Innocent purchaser for value. — The decree of registration shall not be reopened or revised by reason of absence, minority, or other disability of any person adversely affected thereby, nor by any proceeding in any court for reversing judgments, subject, however, to the right of any person, including the government and the branches thereof, deprived of land or of any estate or interest therein by such adjudication or confirmation of title obtained by actual fraud, to file in the proper Court of First Instance a petition for reopening and review of the decree of registration not later than one year from and after the date of the entry of such decree of registration, but in no case shall such petition be entertained by the court where an innocent purchaser for value has acquired the land or an interest therein, whose rights may be prejudiced. Whenever the phrase "innocent purchaser for value" or an equivalent phrase occurs in this Decree, it shall be deemed to include an innocent lessee, mortgagee, or other encumbrancer for value.

Upon the expiration of said period of one year, the decree of registration and the certificate of title issued shall become incontrovertible. Any person aggrieved by such decree of registration in any case may pursue his remedy by action for damages against the applicant or any other persons responsible for the fraud.

However, the banking industry belongs to a different category than private individuals. Banks are considered businesses impressed with public interest, requiring “high standards of integrity and performance.”⁸⁸ Consequently, banks must exercise greater care, prudence, and due diligence in their property dealings. The standard operating practice for banks when acting on a loan application is “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.”⁸⁹

⁸⁷ Id. at 458.

⁸⁸ Rep. Act No. 8791 (2000), sec. 2, otherwise known as The General Banking Law of 2000.

⁸⁹ *Philippine Banking Corporation v. Dy*, G.R. No. 183774, November 14, 2012, 685 SCRA 567, 575 [Per J. Perlas-Bernabe, Second Division], citing *Alano v. Planter's Development Bank*, G.R. No. 171628, June 13, 2011, 651 SCRA 766, 774–775 [Per J. Del Castillo, First Division]. See also *Dela Peña v. Avila*, G.R. No. 187490, February 8, 2012, 665 SCRA 553, 570 [Per J. Perez, Second Division].

Unlike in *Cruz v. Bancom Finance Corporation* cited by petitioners,⁹⁰ PNB complied with this standard operating practice.

The petition even attached certified true copies of the transcript of bank appraiser Gerardo Pestaño's testimony, offered "to prove that defendant spouses Reynaldo and Jannette [sic] Andres mortgaged the property subject matter of the litigation covered by Transfer Certificate of Title No. NT-239548 to secure their loan to PNB approved in 1995 and *at that time the defendant Andres [spouses] were the owner[s] of the mortgaged property; that there was no claim filed by the plaintiff Onofre Andres. . . .*"⁹¹

Petitioner heirs disagree with the Court of Appeals' findings of due diligence by PNB. They submit that Gerardo Pestaño failed to conduct a thorough investigation; otherwise, he would have discovered that Reynaldo Andres did not own the residential building then being constructed on the property.⁹² Petitioner heirs add that the approval of a collateral in 1965 does not mean the same property is good collateral 30 years later.⁹³ Lastly, PNB was negligent when it failed to take into account the two-year period under Rule 74, Section 4 of the Rules of Court.⁹⁴

These arguments fail to convince.

First, it is undisputed that PNB sent its appraiser and credit investigator Gerardo Pestaño to conduct an ocular inspection of the property.⁹⁵ He also went to the relevant government offices to verify the ownership status of the property.⁹⁶ There was an on-going construction of a residential building during his inspection, so he appraised this building as well, in case the land proved insufficient to cover the applied loan.⁹⁷ These acts complied with the standard operating practice expected of banks when dealing with real property.

Second, the two-year period under Rule 74, Section 4 of the Rules of Court had lapsed and petitioner heirs did not allege if any heir or creditor of Roman Andres and his wife had invoked their right under this provision. Rule 74, Section 4 of the Rules of Court provides:

⁹⁰ In *Bancom*, the bank, among other things, failed to conduct an ocular inspection of the property at the time it was mortgaged to the bank. See *Cruz v. Bancom Finance Corporation*, 429 Phil. 225, 240 (2002) [Per J. Panganiban, Third Division].

⁹¹ *Rollo*, p. 91.

⁹² *Id.* at 23 and 157–158.

⁹³ *Id.* at 25.

⁹⁴ *Id.* at 25–26.

⁹⁵ *Id.* at 157.

⁹⁶ *Id.*

⁹⁷ *Id.* at 45.

SEC 4. *Liability of distributees and estate. – If it shall appear at any time within two (2) years after the settlement and distribution of an estate* in accordance with the provisions of either of the first two sections of this rule, *that an heir or other person has been unduly deprived of his lawful participation* in the estate, such heir or such other person may compel the settlement of the estate in the courts in the manner hereinafter provided for the purpose of satisfying such lawful participation. And if within the same time of two (2) years, it shall appear that there are debts outstanding against the estate which have not been paid, or that an heir or other person has been unduly deprived of his lawful participation payable in money, the court having jurisdiction of the estate may, by order for that purpose, after hearing, settle the amount of such debts or lawful participation and order how much and in what manner each distributee shall contribute in the payment thereof, and may issue execution, if circumstances require, against the bond provided in the preceding section or against the real estate belonging to the deceased, or both. Such bond and such real estate shall remain charged with a liability to creditors, heirs, or other persons for the full period of two (2) years after such distribution, notwithstanding any transfers of real estate that may have been made. (Emphasis supplied)

This provision was no longer annotated on the title at the time the title was submitted to PNB as collateral for the loan:

Q: You mentioned that you did went [sic] to the Register of Deeds and in the Register of Deeds you found the document concerning an order in Civil Case involving the property, do you remember having said that?

A: Yes, sir.

Q: What was that Civil Case all about?

A: I go to the Register of Deeds to verify the previous title because there is a Sec. 4 Rule 74 of the title and I found out at the back of the title that there is an order in favor of Reynaldo Andres commissioned by virtue of an order of RTC 3rd Judicial Region, Branch 37, Sto. Domingo, Nueva Ecija issued by Hon. Senen Saguyod issued by Security Bank and Trust Company and the transfer of ownership of the properties of the deceased spouses Roman Andres and Lydia Echauz to Reynaldo Andres and the date is October 14, 1992, sir.

Atty. Lasam:

Q: Having read that at the Register of Deeds of Nueva Ecija you proceeded to Branch 37,

Baloc, Sto. Domingo, Nueva Ecija to verify whether there are still pending cases regarding the lot?

A: *A[t] the time they submit the title there is no annotation at the back of the title and the title is clean, sir.*

Q: You mean to say that when they applied for a loan that annotation which you read earlier was not present?

A: There is no more annotation, sir.⁹⁸
(Emphasis supplied)

In any event, Rule 74, Section 4 does not apply to Onofre Andres who never alleged being an excluded heir or unpaid creditor of his brother Roman Andres and Roman's wife.

Petitioner heirs also insist that Gerardo Pestaño did not interview or inquire from residents in the surrounding area regarding the ownership of the residential building then being constructed on the land.⁹⁹ They submit that this amounts to lack of due diligence by PNB considering Reynaldo Andres' admission that Onofre Andres possessed the property, but by mere tolerance.¹⁰⁰

On the contrary, Gerardo Pestaño testified that he interviewed the laborers working on the residential building in the property, and he asked the Spouses Reynaldo Andres and Janette de Leon to obtain the tax declaration from the Assessor's Office:

ATTY LASAM: Mr. witness, the time you conducted the credit investigation who was in possession of the property?

A. I was asked by Reynaldo Andres to see the property and we went to the place and there is on going construction of a building and it was 50% finish. I told them to go to the Municipal Assessor's Office for Tax Declaration.

Q. So it is cle[unreadable] that Reynaldo and Jannette was in possession of the subject property?

A. Yes, sir.

⁹⁸ Id. at 108–109.

⁹⁹ Id. at 23–24.

¹⁰⁰ Id. at 24.

Q. And at the time you conducted the credit investigation was there any claim of that property. . regarding this claim of Onofre Andres?

A. I went to the Municipal Hall of Sto. Domingo and I don't have any knowledge of that.

.....

Q. When you investigated you solely relied to the title being offered?

A. No, sir. *I went to the Assessor's Office of Sto. Domingo, to see the tax payments and to the Register of Deeds.*

Q. *You did talk to the laborers working in the building?*

A. *Yes, sir.*

Q. Mr. witness, you mentioned that you required Reynaldo Andres to submit the tax declaration of the building?

A. Yes, sir.

Q. Did he submit to you the tax declaration?

A. Yes.¹⁰¹ (Emphasis supplied)

Gerardo Pestaño did not have a copy of the tax declaration of the residential building at the time of his testimony, but he testified that the Spouses Reynaldo Andres and Janette de Leon presented Tax Declaration No. 449459, and he inspected this document.¹⁰² He does not appear to have been questioned on the contents of Tax Declaration No. 449459.

Nevertheless, even Onofre Andres' possession appears doubtful since Gerardo Pestaño testified that the residential building was still under construction during his inspection on August 8, 1995:¹⁰³

Q: Did you actually inspect the 4,634 square meters of the property?

A: Yes, sir.

¹⁰¹ Id. at 97–99.

¹⁰² Id. at 99 and 114–115.

¹⁰³ Id. at 106.

Q: *At the time of your inspection of the property, who was actually living in the property?*

A: *At the time of my inspection on August 8, 1995 the house is under construction? sir.*

Q: There were no occupants?

A: The spouses borrower Reynaldo Andres and his wife, sir.

Atty. Lasam:

Q: You mean to say that while the building is under construction they were at the same time living there?

A: They were not living there but they were in possession of the property, sir.

Q: You only presumed that they are the once [sic] in possession of the property?

A: Because they accompanied me there, sir.¹⁰⁴
(Emphasis supplied)

In their reply, petitioner heirs attached tax declarations over the land and the residential building, asking this court to allow the submission of such documentary evidence in the interest of substantial justice.¹⁰⁵ Again, this court is not a trier of facts. A petition for review on certiorari “shall raise only questions of law.”¹⁰⁶ This court cannot accept and consider documentary evidence only raised and submitted now on review.

In any event, the tax declarations attached to the reply fail to convince. Reynaldo Andres attached two tax declarations to show that he owned the residential building standing on the property, thus, Gerardo Pestaño did not conduct an exhaustive investigation.¹⁰⁷

The first tax declaration in Reynaldo Andres’ name was for year 1994. The spaces allotted for the boundaries of the land where the house stands read “erected on the lot of Roman Andres,” but the name Roman Andres was written on top of a white out erasure, and such correction was not countersigned.¹⁰⁸ Reynaldo Andres did not explain such erasure in his reply. A person presenting an altered document must account for the alteration;

¹⁰⁴ Id. at 105–106.

¹⁰⁵ Id. at 159.

¹⁰⁶ RULES OF COURT, Rule 45, sec. 1.

¹⁰⁷ Id. at 160.

¹⁰⁸ Id. at 169.

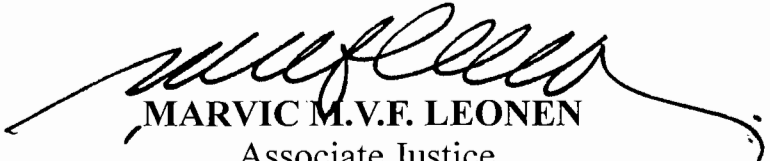
otherwise, this affects its admissibility.¹⁰⁹

The second tax declaration was for year 2006, long after Gerardo Pestaño inspected the property in 1995.¹¹⁰

In sum, this court reiterates the rule that banks, as businesses impressed with public interest, must exercise greater care, prudence, and due diligence in all their property dealings. This court upholds the Court of Appeals' findings that PNB complied with the standard operating practice of banks, which met the requisite level of diligence, when it sent Gerardo Pestaño to conduct an ocular inspection of the property and verify the status of its ownership and title. Consequently, PNB is a mortgagee in good faith. The title resulting from the foreclosure sale, therefore, is to be protected. The bank is an innocent purchaser for value.

WHEREFORE, the petition is **DENIED**. The assailed Court of Appeals decision and resolution are **AFFIRMED**.

SO ORDERED.



MARVIC M.V.F. LEONEN
Associate Justice

WE CONCUR:

ANTONIO T. CARPIO

Associate Justice

Chairperson


DIOSDADO M. PERALTA
Associate Justice


MARIANO C. DEL CASTILLO
Associate Justice


BIENVENIDO L. REYES

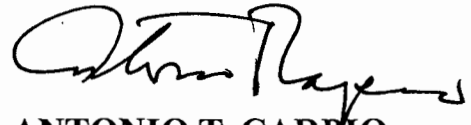
Associate Justice

¹⁰⁹ RULES OF COURT, Rule 132, sec. 31. See *Cabotaje v. Spouses Pudunan*, 480 Phil. 65, 77 (2004) [Per J. Callejo, Sr., Second Division].

¹¹⁰ *Rollo*, p. 170.

ATTESTATION

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



ANTONIO T. CARPIO
Associate Justice
Chairperson, Second Division

CERTIFICATION

Pursuant to Section 13, Article VIII of the Constitution and the Division Chairperson's Attestation, I certify that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.



MARIA LOURDES P. A. SERENO
Chief Justice