



Republic of the Philippines  
Supreme Court  
Manila

THIRD DIVISION

SPOUSES EMILIANO L. G.R. No. 177803  
JALBAY, SR. and MAMERTA  
C. JALBAY,

Petitioners,

Present:

- versus -

VELASCO, JR., J., *Chairperson*,  
PERALTA,  
VILLARAMA, JR.,  
PEREZ\*, and  
JARDELEZA, JJ.

PHILIPPINE NATIONAL  
BANK,  
Respondent.

Promulgated:  
August 3, 2015

X-----  
*[Signature]*-----X

DECISION

PERALTA, J.:

This is a Petition for Review under Rule 45 of the Rules of Court which petitioners spouses Emiliano L. Jalbay, Sr. and Mamerta C. Jalbay (*the Spouses Jalbay*) filed, seeking the reversal of the Court of Appeals (CA) Decision<sup>1</sup> dated November 29, 2006 and its Resolution<sup>2</sup> dated April 27, 2007 in CA-G.R. CV No. 80896. The CA reversed the Decision<sup>3</sup> of the Regional Trial Court (RTC) of Quezon City, Branch 100, which declared the real estate mortgage in favor of respondent Philippine National Bank (PNB) null and void.

The facts of the case are as follows:

\* Designated Acting Member in lieu of Associate Justice Bienvenido L. Reyes, per Special Order No. 2112 dated July 16, 2015.

<sup>1</sup> Penned by Associate Justice Rebecca De Guia-Salvador, with Associate Justices Magdangal M. De Leon and Ramon R. Garcia; concurring; *rollo*, pp. 25-44.

<sup>2</sup> *Id.* at 46.

<sup>3</sup> Penned by Judge Normandie B. Pizarro; *id.* at 48-57.

The subject property is a 257-square-meter lot at Del-Nacia Ville No. 4, Sauyo Road, Novaliches, Quezon City registered under the names of the Spouses Jalbay. On June 11, 1988, the Transfer Certificate of Title (*TCT*) covering said property was destroyed when the Office of the Quezon City Register of Deeds was gutted by fire. Upon reconstitution, the title was issued in the name of “Emiliano Jalbay, married to Mamerta C. Jalbay,” and because the Spouses Jalbay were then working and residing abroad, the title was released to their daughter, Virginia Agus.

Sometime in 1993, Virginia and her husband, Danilo Agus (*the Spouses Agus*), applied for a loan with PNB, Ermita Branch, in order to acquire additional funds for their garments business operating under the name of VJA Garments. As a security, the Spouses Agus constituted a real estate mortgage over the subject lot, which they represented as being owned by siblings Emiliano Jalbay, Jr., and Teresita Jalbay-Cinco. The aforesaid borrowers, however, failed to settle their loan obligation. As a result, PNB foreclosed the mortgage over the property. It likewise emerged as the highest bidder at the public auction.

Subsequently, during a short vacation in the country, the Spouses Jalbay learned about the mortgage and foreclosure of their property. Contending that the real estate mortgage and the proceedings for its foreclosure were invalid for lack of consent of the real registered owners, the Spouses Jalbay filed a complaint against PNB before the Quezon City RTC. The case was docketed as Civil Case No. Q-97-30800. They likewise sought to prevent the bank from consolidating its ownership over the parcel of land during the pendency of the case.

On April 3, 2003, the RTC declared the assailed real estate mortgage as null and void and the foreclosure proceedings without force and effect.

Aggrieved, PNB and the Spouses Agus appealed the case before the CA for the reversal of the RTC ruling. On November 29, 2006, the appellate court reversed and set aside the decision of the RTC and ordered the dismissal of the complaint.

The Spouses Jalbay thus filed a Motion for Reconsideration but the same was denied. Hence, the instant petition.

The Spouses Jalbay mainly posit that PNB did not act with the requisite diligence when it approved the loan application of the Spouses Agus, Emiliano, Jr., and Cinco. They claim that the RTC was correct in finding that PNB was not a mortgagee in good faith, making the mortgage constituted on the subject lot null and void.

The petition lacks merit.

In reversing the RTC Decision, the CA held that PNB followed standard banking practices in allowing the assailed loan. According to it, PNB cannot be said to have acted with haste in approving the loan application since the bank caused the subject property to be inspected and appraised, and even conducted a careful credit investigation on the Spouses Agus, Emiliano, Jr., and Cinco. Victorio Sison, PNB's Vice-President and Ermita Branch Manager, testified on the witness stand:

x x x x

- Q. Aside from this loan application, what other document, if any, Mr. Witness, did the third-party defendants submit to you for your consideration?
- A. They also submitted their transfer certificate of title which will serve as collateral to the loans.

x x x x

- Q. x x x Now, after this transfer certificate of title which you identified were submitted to you, what happened next to the loan application of the third party defendant?
- A. We processed the loan and we asked the assistance of the credit department to appraise the property and conduct investigation on the borrowers and/or mortgagors.
- Q. Was such appraisal and inspection done as directed by you?
- A. It was requested by the branch headed by me to the credit department, whose functions are independent from the branch.
- Q. Do you have any proof to show that indeed there was appraisal and investigation conducted as requested by you?
- A. I think so because once we requested the credit department they submit their appraisal report within one or two weeks.

x x x x

- Q. After this Inspection and Appraisal Report was submitted to you together with other loan documents, what happened next to the loan application of third-party defendants?
- A. After the appraisal report and the investigation report were submitted to us, we processed the loan and accordingly we deliberated the loan. We found nothing wrong with both appraisal and investigation reports.
- Q. And so, after you found nothing wrong in the loan application, what happened next?
- A. We approve the application, we required them to submit the original TCT. After which we prepared the corresponding Credit Agreement, the R.E.M. and we sent that to the Register of Deeds for registration. After the Register of Deeds registered, then the parties concerned signed the Credit Agreement. We gave them also the Promissory Note

for them to sign as evidence that the money or funds will be released to them.<sup>4</sup>

Verily, PNB exerted the necessary diligence in granting the loan and entering into the assailed real estate mortgage. Not only did it require Emiliano, Jr., Cinco, and the Spouses Agus to submit their biodata, duly accomplished loan application and the TCT covering the mortgaged lot, it likewise caused the subject property to be inspected and appraised, and conducted a thorough credit investigation on the persons of the borrowers.

True, banks, in handling real estate transactions, are required to exert a higher degree of diligence, care, and prudence than individuals. Unlike private individuals, it is expected to exercise greater care and prudence in its dealings, including those involving registered lands. A banking institution is expected to exercise due diligence before entering into a mortgage contract.<sup>5</sup> Indeed, there is a situation where, despite the fact that the mortgagor is not the owner of the mortgaged property, his title being fraudulent, the mortgage contract and any foreclosure sale arising therefrom are given effect by reason of public policy. This is the doctrine of "the mortgagee in good faith," wherein buyers or mortgagees dealing with property covered by a Torrens Certificate of Title are no longer required to go beyond what appears on the face of the title.<sup>6</sup> However, the rule that persons dealing with registered lands can rely solely on the certificate of title is not applicable to banks. Thus, before approving a loan application, it is a standard operating practice for these institutions to conduct an ocular inspection of the property offered for mortgage and to verify the veracity of the title to determine its real owners. An ocular inspection is necessary 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.<sup>7</sup>

Here, the Court finds that PNB has complied with the required degree of diligence, prudence, and care in dealing with the mortgagor. There was also no sign or circumstance which could have possibly triggered suspicion on the bank's part. Aside from the fact that the certificate of title to the subject lot is authentic and issued in the name of *Emiliano Jalbay*, he also appeared to have been the one occupying said property. Hence, there is no compelling reason to depart from the assailed rulings of the appellate court.

**WHEREFORE**, premises considered, the petition is **DENIED**. The Decision of the Court of Appeals dated November 29, 2006 and its

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<sup>4</sup> *Rollo*, pp. 38-39.

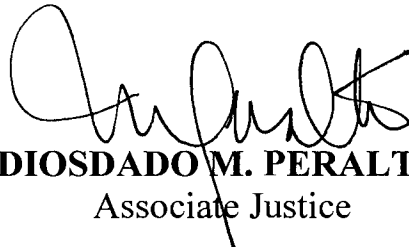
<sup>5</sup> *Arguelles v. Malarayat Rural Bank*, G.R. No. 200468, March 19, 2014, 719 SCRA 563, 574.

<sup>6</sup> *Land Bank of the Philippines v. Poblete*, G.R. No. 196577, February 25, 2013, 691 SCRA 613, 625.


<sup>7</sup> *Arguelles v. Malarayat Rural Bank*, *supra* note 5, at 574-575.

Resolution dated April 27, 2007 in CA-G.R. CV No. 80896 are **AFFIRMED.**


**SO ORDERED.**

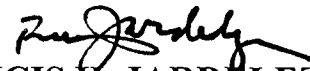
  
**DIOSDADO M. PERALTA**  
Associate Justice

**WE CONCUR:**

  
**PRESBITERO J. VELASCO, JR.**  
Associate Justice  
Chairperson


  
**MARTIN S. VILLARAMA, JR.**  
Associate Justice

  
**JOSE PORTUGAL PEREZ**  
Associate Justice

  
**FRANCIS H. JARDELEZA**  
Associate Justice

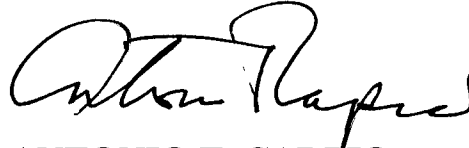
**ATTESTATION**

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.

  
**PRESBITERO J. VELASCO, JR.**  
Associate Justice  
Chairperson, Third 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.

A handwritten signature in black ink, appearing to read "Antonio T. Carpio". The signature is fluid and cursive, with a large initial "A" and "C".

**ANTONIO T. CARPIO**  
Acting Chief Justice