



Republic of the Philippines
Supreme Court
Manila

SECOND DIVISION

HEIRS OF JOSE DE LARA, SR.,*
Petitioners,

G.R. No. 212012

Present:

PERLAS-BERNABE, SAJ.,
Chairperson,
HERNANDO,
ZALAMEDA,
ROSARIO, and
MARQUEZ, JJ.

- versus -

RURAL BANK OF JAEN, INC.,
Respondent.

Promulgated:

MAR 28 2022

X-----X

DECISION

HERNANDO, J.:

In this petition for review on *certiorari*¹ under Rule 45 of the Rules of Court, the heirs of Jose E. De Lara seek the reversal of the December 10, 2013 Decision² and March 13, 2014 Resolution³ of the Court of Appeals (CA) in CA-G.R. SP No. 126325, which reversed the July 4, 2012 Decision⁴ of the Department of Agrarian Reform Adjudication Board (DARAB) in DARAB Case No. 15281 (Reg. Case No. 08395-SNE-04), and denied their motion for reconsideration,⁵ respectively.

* Jose De Lara, Sr. who was also referred to as Jose E. De Lara and Jose De Lara in some parts of the records.

¹ *Rollo*, 3-19.

² *Id.* at 22-34; Penned by Associate Justice Rebecca De Guia-Salvador and concurred in by Associate Justices Ramon R. Garcia and Danton Q. Bueser.

³ *Id.* at 100-101.

⁴ *Id.* at 35-46.

⁵ *Id.* at 84-98.

The CA reinstated the January 4, 2006 Decision⁶ of the Provincial Agrarian Reform Adjudicator (PARAD) for Cabanatuan City that directed the Register of Deeds of Nueva Ecija to cancel Transfer Certificate of Title (TCT) No. EP-86727 with DAR E.P. No. 00735825 registered in the name of the late Jose E. De Lara (Jose), and to issue a new title in the name of respondent Rural Bank of Jaen, Inc.

The Antecedent Facts

Jose, a farmer-beneficiary under the Operation Land Transfer of Presidential Decree No. (PD) 27,⁷ was awarded a parcel of land in Dampulan (now Vicente), Jaen, Nueva Ecija with an area of 2,257 square meters (subject land). On November 20, 1998, TCT No. EP-86727⁸ under the Department of Agriculture Reform (DAR) Emancipation Patent (EP) No. 00735825 covering the subject land was issued in favor of Jose.⁹

Subsequently, Jose obtained a loan from respondent bank secured by a mortgage over the subject land. Unfortunately, he failed to pay his obligation; hence, the mortgage was foreclosed. On February 27, 2003, a public auction was held wherein respondent bank was declared the highest bidder.¹⁰ On July 3, 2003, the Regional Trial Court (RTC) of Gapan, Nueva Ecija issued a Certificate of Sale¹¹ to respondent bank. On August 19, 2003, respondent bank registered the sale with the Register of Deeds.¹²

A year passed but neither Jose nor his heirs redeemed the subject land. Thus, on October 4, 2004, respondent bank executed an Affidavit of Consolidation of Ownership¹³ over the said land.

On December 16, 2004, respondent bank filed a verified petition¹⁴ for cancellation of TCT No. EP-86727 covering the subject land before the PARAD. Petitioners filed an Answer¹⁵ and sought the dismissal of the petition. They argued that the PARAD did not acquire jurisdiction over them for failure to implead necessary parties. They also averred that respondent bank's petition lacked a cause of action because the purported real estate mortgage executed by Jose was void *ab initio* as it was executed within the 10-year prohibitory

⁶ Id. at 47-48.

⁷ Entitled "DECREEING THE EMANCIPATION OF TENANTS FROM THE BONDAGE OF THE SOIL, TRANSFERRING TO THEM THE OWNERSHIP OF THE LAND THEY TILL AND PROVIDING THE INSTRUMENTS AND MECHANISM THEREFOR." Approved: October 21, 1972.

⁸ CA rollo, p. 47.

⁹ Rollo, p. 23.

¹⁰ Id.

¹¹ CA rollo, pp 48-49.

¹² Rollo, p. 23.

¹³ CA rollo, p. 51.

¹⁴ Id. at 45-46.

¹⁵ Id. at 52-54.

period under Section 27¹⁶ of Republic Act No. (RA) 6657,¹⁷ otherwise known as the Comprehensive Agrarian Reform Program.¹⁸ Lastly, petitioners claimed that the mortgage was void because it was executed without the consent of Jose's wife, Marcela Mariano (Marcela).¹⁹

Ruling of the PARAD:

In its Decision²⁰ dated January 4, 2006, the PARAD granted respondent bank's petition for cancellation of TCT No. EP-86727.

The PARAD held that respondent bank substantially proved that Jose obtained and failed to pay his loan, and that the extrajudicial foreclosure of mortgage was in accord with Act No. 3135,²¹ as amended. Thus, TCT No. EP-86727 ought to be cancelled, and a new one issued in the name of respondent bank.²²

Moreover, the PARAD did not give credence to petitioners' claim that the mortgage was void *ab initio* due to alleged lack of Marcela's consent. Petitioners should have filed the appropriate complaint before the RTC after the mortgage was executed or the Certificate of Sale was issued. Petitioners also did not present in evidence the mortgage contract to prove that Marcela did not sign the same. Hence, the presumption that Marcela consented to the mortgage stands.

The *fallo* of the PARAD Decision states:

WHEREFORE, premises considered, judgment is hereby rendered ordering the Register of Deeds of Nueva Ecija (*sic*) to cancel Transfer Certificate of Title No. EP-86727 with DAR E.P. No. 00735825 registered under the name of Jose E. De Lara. The Register of Deeds is likewise directed to issue a transfer Certificate of title in the name of the petitioner. Respondents are directed to surrender the afore-referred Emancipation Patent with the Register of Deeds, otherwise, the latter shall effect the cancellation of pursuant to the pertinent provisions of P.D. 1529 and its implementing rules and regulations.

So Ordered.²³

Aggrieved, petitioners appealed to the DARAB maintaining that the EP over the subject land should not be cancelled.

¹⁶ *Rollo*, p. 24.

¹⁷ Entitled "AN ACT INSTITUTING A COMPREHENSIVE AGRARIAN REFORM PROGRAM TO PROMOTE SOCIAL JUSTICE AND INDUSTRIALIZATION, PROVIDING THE MECHANISM FOR ITS IMPLEMENTATION, AND FOR OTHER PURPOSES." Approved: June 10, 1988.

¹⁸ *CA rollo*, pp. 52-54.

¹⁹ *Rollo*, p. 24.

²⁰ *Id.* at 47-48.

²¹ Entitled "AN ACT TO REGULATE THE SALE OF PROPERTY UNDER SPECIAL POWERS INSERTED IN OR ANNEXED TO REAL ESTATE MORTGAGES," approved on March 6, 1924.

²² *Id.* at 48.

²³ *Id.*

Ruling of the DARAB:

In its July 4, 2012 Decision,²⁴ the DARAB reversed the PARAD.

The DARAB stated that respondent bank's act of consolidating ownership over the subject land is prohibited under agrarian laws. The subject land is an agricultural land awarded to qualified farm-beneficiaries covered by PD 27, and Section 27 of RA 6657, as amended, only allows transfers of such awarded agricultural lands (a) through hereditary succession, (b) to the Government, (c) to the Land Bank of the Philippines, or (d) to other qualified farmer-beneficiaries.

The DARAB further held that while Section 73-A of RA 6657 permits financial banking institutions to sell or transfer mortgaged land which has been foreclosed, the lands contemplated in the said provision do not include those covered by an EP or a Certificate of Land Ownership Award (CLOA). To allow a foreclosing bank to transfer ownership of foreclosed lots in its name is unlawful since it cannot be deemed as a farmer-awardee or a beneficiary of the same under PD 27 or RA 6657, as amended.

Lastly, the DARAB held that Jose and Marcela's certificate of title over the subject land has already become indefeasible and incontrovertible since the one-year prescribed period upon the issuance thereof had already lapsed. Hence, it may no longer be subject to cadastral proceeding or be decreed to another person.

The dispositive portion of the DARAB Decision reads as follows:

WHEREFORE, the Appeal is GRANTED. The Assailed Decision dated 4 January 2006 is REVERSED. A NEW DECISION is rendered DISMISSING the Petition for LACK OF MERIT.

No costs.

SO ORDERED.

This adverse ruling prompted respondent bank to file an appeal²⁵ before the CA.

Ruling of the Court of Appeals:

In its Decision²⁶ dated December 10, 2013, the CA reversed the DARAB Decision and reinstated the PARAD Decision.

²⁴ Id. at 35-46.

²⁵ CA *rollo*, pp. 14-39.

²⁶ *Rollo*, pp. 22-34.

The CA ruled that Jose and Marcela had already fully paid Land Bank of the Philippines their amortizations covering the subject land before it was mortgaged to respondent bank which resulted in the issuance of an EP on March 18, 1999. Hence, as owners of the subject land, they validly entered into a mortgage contract with respondent bank. Petitioners failed to duly prove that fraud or vitiation of consent exists in the execution of the mortgage contract. Thus, the presumption remains that Jose and Marcela voluntarily entered into a mortgage agreement with respondent bank.

The CA also held that pursuant to Section 6 of RA 7353,²⁷ respondent bank, as a rural bank, can foreclose the subject land although falling under RA 6657 since Jose and Marcela failed to pay their obligation, and to redeem the property within the one-year period. The subject land which had been foreclosed can therefore be sold and/or transferred to respondent bank under Section 6 of RA 7881²⁸ and Section 71 of RA 6657.²⁹

The *fallo* of the appellate court's Decision reads as follows:

WHEREFORE, premises considered, the instant petition is hereby GRANTED. The assailed Decision of the DARAB in DARAB Case No. 15281 is REVERSED and SET ASIDE. In lieu thereof, the Decision of the PARAD dated January 4, 2006 in DARAB Case No. 08-395-SNE-05 is REINSTATED.

SO ORDERED.³⁰

Petitioners filed a motion for reconsideration³¹ but the CA denied the same in its Resolution³² dated March 13, 2014.

²⁷ Entitled "AN ACT PROVIDING FOR THE CREATION, ORGANIZATION AND OPERATION OF RURAL BANKS, AND FOR OTHER PURPOSES, approved on April 2, 1992. Cited by the CA as follows:

Loans or advances extended by rural banks organized and operated under this Act shall be primarily for the purpose of meeting the normal credit needs of farmers, fishermen or farm families owning or cultivating land dedicated to agricultural production as well as the normal credit needs of cooperatives and merchants. In granting of loans, the rural bank shall give preference to the application of farmers and merchant whose cash requirements are small.

x x x x

A rural bank shall be allowed to foreclose lands mortgaged to it: Provided, That said lands shall be covered under Republic Act No. 6657.

(Id. at 28.)

²⁸ Cited by the CA as follows:

[T]here shall be incorporated after Section 73 of Republic Act No. 6657 a new section to read as follows: "Section 73-A Exceptions— The provisions of Section 73, paragraph (E), to the contrary notwithstanding, the sale and/or transfer of agricultural land in cases where such sale, transfer or conveyance is made necessary as a result of a bank's foreclosure of the mortgaged land is hereby permitted.

(Id. at 29.)

²⁹ Cited by the CA as follows:

Section 71. Bank Mortgages. – Banks and other financial institutions allowed by law to hold mortgage rights or security interests in agricultural lands to secure loans and other obligations of borrowers, may acquire title to these mortgaged properties, regardless of area, subject to existing laws on compulsory transfer of foreclosed assets and acquisition as prescribed under Section 13 of this Act.

(Citations omitted; id.)

³⁰ Id. at 33-34.

³¹ CA *rollo*, pp. 166-181.

³² *Rollo*, pp. 100-101.

Hence, this petition for review on *certiorari*.³³

Issue

Whether the subject land covered by an EP can be foreclosed and its title cancelled by the PARAD in favor of respondent bank.

Our Ruling

The petition is impressed with merit.

DARAB has no jurisdiction over the case at bench as there is no agrarian dispute between the parties.

Rule II of the 2003 DARAB Rules of Procedure provides that the Adjudicator has the primary and exclusive jurisdiction over cases involving correction, partition, cancellation, secondary and subsequent issuances of CLOAs and EPs which are registered with the Land Registration Authority. The DARAB, on the other hand, has exclusive appellate jurisdiction to review, reverse, modify, alter, or affirm resolutions, orders, and decisions of its Adjudicators.

The Court, in *Vda. de Tangub v. Court of Appeals*,³⁴ held that the jurisdiction of the DAR concerns the (1) determination and adjudication of all matters involving implementation of agrarian reform; (2) resolution of agrarian conflicts and land-tenure related problems; and (3) approval or disapproval of the conversion, restructuring, or readjustment of agricultural lands into residential, commercial, industrial, and other non-agricultural uses.³⁵ The DAR, in turn, exercises this jurisdiction through its adjudicating arm, the DARAB.³⁶

The enactment of RA 9700,³⁷ as the amendatory law to RA 6657, now transfers the exclusive and original jurisdiction over these cases to the Secretary of the DAR.³⁸

³³ Id. at 3-20.

³⁴ 270 Phil. 88 (1990).

³⁵ Id. at 93-94.

³⁶ See id. at 98.

³⁷ Entitled "AN ACT STRENGTHENING THE COMPREHENSIVE AGRARIAN REFORM PROGRAM (CARP), EXTENDING THE ACQUISITION AND DISTRIBUTION OF ALL AGRICULTURAL LANDS, INSTITUTING NECESSARY REFORMS, AMENDING FOR THE PURPOSE CERTAIN PROVISIONS OF REPUBLIC ACT NO. 6657, OTHERWISE KNOWN AS THE COMPREHENSIVE AGRARIAN REFORM LAW OF 1988, AS AMENDED, AND APPROPRIATING FUNDS THEREFOR,"

³⁸ See *Secretary of the Department of Agrarian Reform v. Heirs of Abucay*, G.R. Nos. 186432 & 186964, March 12, 2019.

Even if the case involves cancellation of an EP, an agrarian dispute between the parties should first exist for the then DARAB or DAR Secretary to acquire jurisdiction.³⁹

Section 3(d) of RA 6657 defines agrarian dispute as “any controversy relating to tenurial arrangements, whether leasehold, tenancy, stewardship or otherwise, over lands devoted to agriculture, including disputes concerning farmworkers’ associations or representation of persons in negotiating, fixing, maintaining, changing, or seeking to arrange terms or conditions of such tenurial arrangements”.⁴⁰ It also includes “any controversy relating to compensation of lands acquired under this Act and other terms and conditions of transfer of ownership from landowners to farmworkers, tenants and other agrarian reform beneficiaries, whether the disputants stand in the proximate relation of farm operator and beneficiary, landowner and tenant, or lessor and lessee.”⁴¹

Tenancy relationship between the parties must exist for the DARAB to acquire jurisdiction.⁴² The following indispensable elements should therefore first be established: (1) that the parties are the landowner and the tenant or agricultural lessee; (2) that the subject matter of the relationship is an agricultural land; (3) that there is consent between the parties to the relationship; (4) that the purpose of the relationship is to bring about agricultural production; (5) that there is personal cultivation on the part of the tenant or agricultural lessee; and (6) that the harvest is shared between the landowner and the tenant or agricultural lessee.⁴³ These elements have not been satisfied in the present case.

There was no tenancy relationship between petitioners and respondent bank over the subject land. Neither did they have any leasehold or agrarian relations when respondent bank filed its petition with the DARAB. In fact, respondent bank did not allege in its petition that such kind of relationship exists between them. What is crystal clear in the instant case is that respondent bank’s petition for cancellation of certificate of title stemmed from the subject land’s foreclosure. There was therefore no agrarian dispute notwithstanding the fact that the land involved is an agricultural land. Thus, respondent’s petition should have been dismissed by the DARAB for lack of jurisdiction.

Admittedly, petitioners did not question the DARAB’s jurisdiction or the lack thereof. However, the Court could not simply ignore this especially since it is apparent from the face of the petition that there was no tenancy relationship between the parties, a material allegation which would confer jurisdiction to the DARAB.

³⁹ See *id.*

⁴⁰ *Heirs of Nisperos v. Nisperos-Ducusin*, 715 Phil. 691, 701 (2013).

⁴¹ *Id.*

⁴² *Id.* at 702, citing *Morta, Sr. v. Occidental*, 367 Phil. 438, 446 (1999).

⁴³ *Id.*

The Court's pronouncement in *Heirs of Julian Dela Cruz v. Heirs of Alberto Cruz*⁴⁴ is instructive:

It is axiomatic that the jurisdiction of a tribunal, including a quasi-judicial officer or government agency, over the nature and subject matter of a petition or complaint is determined by the material allegations therein and the character of the relief prayed for, irrespective of whether the petitioner or complainant is entitled to any or all such reliefs. Jurisdiction over the nature and subject matter of an action is conferred by the Constitution and the law, and not by the consent or waiver of the parties where the court otherwise would have no jurisdiction over the nature or subject matter of the action. Nor can it be acquired through, or waived by, any act or omission of the parties. Moreover, estoppel does not apply to confer jurisdiction to a tribunal that has none over the cause of action. The failure of the parties to challenge the jurisdiction of the DARAB does not prevent the court from addressing the issue, especially where the DARAB's lack of jurisdiction is apparent on the face of the complaint or petition.⁴⁵ (Citations omitted.)

Respondent bank's recourse should have been with the Register of Deeds, not before the DARAB.

It is well to note at this juncture that the DAR was not even the proper forum for the resolution of the matter at hand.

Section 63 of PD 1529,⁴⁶ otherwise known as the Property Registration Decree, states:

Section 63. Foreclosure of Mortgage. (a) x x x

x x x x

x x x x

(b) If the mortgage was foreclosed extrajudicially, a certificate of sale executed by the officer who conducted the sale shall be filed with the Register of Deeds who shall make a brief memorandum thereof on the certificate of title.

In the event of redemption by the mortgagor, the same rule provided for in the second paragraph of this section shall apply.

In case of non-redemption, the purchaser at foreclosure sale shall file with the Register of Deeds, either a final deed of sale executed by the person authorized by virtue of the power of attorney embodied in the deed of mortgage, or his sworn statement attesting to the fact of non-redemption; whereupon, the Register of Deeds shall issue a new certificate in favor of the purchaser after the owner's duplicate of the certificate has been previously delivered and canceled. (Emphasis supplied.)

⁴⁴ 512 Phil. 389 (2005).

⁴⁵ Id. at 400-401.

⁴⁶ Entitled "AMENDING AND CODIFYING THE LAWS RELATIVE TO REGISTRATION OF PROPERTY AND FOR OTHER PURPOSES," approved on June 11, 1978.

Respondent bank, being the purchaser in the foreclosure sale of the subject land and after Jose's failure to redeem the same, should have at least first brought its cause before the appropriate Register of Deeds, not before the DAR. The CA thus erred in reversing the Decision of the DARAB since the petition to cancel TCT No. EP-86727 is beyond the jurisdiction of the DAR.

This notwithstanding, the petition if given due course would still be dismissed.

Subject land is deemed non-transferrable under the provisions of PD 27 and RA 6657, as amended by RA 9700.

PD 27 states:

Title to land acquired pursuant to this Decree or the Land Reform Program of the Government shall not be transferable except by hereditary succession or to the Government in accordance with the provisions of this Decree, the Code of Agrarian Reforms and other existing laws and regulations. (Emphasis supplied.)

The above provision declares that lands acquired through PD 27 may only be transferred by hereditary succession or to the government. These lands are "not subject to foreclosure, except by the Land Bank, because foreclosure contemplates the transfer of ownership over the mortgaged lands."⁴⁷

In the case of *Rural Bank of Dasmariñas v. Jarin*⁴⁸ (*Jarin*) the Court had elaborated the *ratio* for the rule under PD 27:

The policy behind the prohibition in Presidential Decree No. 27 precludes expanding the exceptions therein. So this Court declared:

Upon the promulgation of Presidential Decree No. 27 on October 21, 1972, petitioner was DEEMED OWNER of the land in question. As of that date, he was declared emancipated from the bondage of the soil. As such, he gained the rights to possess, cultivate, and enjoy the landholding for himself. Those rights over that particular property were granted by the government to him and to no other. **To insure his continued possession and enjoyment of the property, he could not, under the law, make any valid form of transfer except to the government or by hereditary succession, to his successors.**

x x x The prohibition against transfers to persons other than the heirs of other qualified beneficiaries stems from the **policy of the Government to develop generations of farmers to attain its avowed goal to have an adequate and sustained agricultural**

⁴⁷ *Rural Bank of Dasmariñas v. Jarin*, 619 Phil. 171, 178 (2009).

⁴⁸ *Id.*

production. With certitude, such objective will not see the light of day if lands covered by agrarian reform can easily be converted for non-agricultural purposes.⁴⁹ x x x

The factual background of *Jarin* substantially mirrors that of the case at hand. *Jarin, et al.* were awarded Certificates of Land Transfer over certain farm lots in Dasmariñas, Cavite. They procured loans from Rural Bank of Dasmariñas, Inc. (RBDI), and secured the same by executing real estate mortgages over their farm lots. *Jarin, et al.* failed to pay the loaned amount; hence, RBDI foreclosed the mortgages and purchased the farm lots as the highest bidder. RBDI, however, could not register the farm lots in its name as *Jarin, et al.* refused to surrender the owner's copies of the TCTs covering the farm lots. RBDI thus filed a complaint against *Jarin, et al.* for the delivery of the said TCTs. The Court invalidated RBDI's right to foreclose the mortgages over *Jarin, et al.*'s farm lots. Quoting the above provision of PD 27, the Court ruled that *Jarin, et al.*'s farm lots acquired through PD 27 may only be transferred by hereditary succession or to the government.⁵⁰ These lands were "not subject to foreclosure, except by the Land Bank, because foreclosure contemplates the transfer of ownership over the mortgaged lands."⁵¹

However, unlike in *Jarin*, the Court cannot resolve the present case by relying *solely* on the provisions of PD 27.

Section 27 of RA 6657 was originally phrased as:

SECTION 27. *Transferability of Awarded Lands.* – **Lands acquired by beneficiaries under this Act may not be sold, transferred or conveyed** except through hereditary succession, or to the government, or to the LBP, or to other qualified beneficiaries **for a period of ten (10) years**: Provided, however, That the children or the spouse of the transferor shall have a right to repurchase the land from the government or LBP within a period of two (2) years. x x x (Emphasis, underscoring supplied.)

It is best to be reminded that the subject land had been granted to Jose per the Operation Land Transfer of PD 27. Under the above initial terms of RA 6657 that were enacted in 1988, this 10-year holding period strictly applied to land grants under RA 6657, and was thus irrelevant to the circumstances of herein subject land.

In 2009, however, RA 9700 became law, amending above Section 27 of RA 6657 to read as follows:

SEC. 27. *Transferability of Awarded Lands.* — Lands acquired by beneficiaries **under this Act or other agrarian reform laws** shall not be sold, transferred or conveyed except through hereditary succession, or to the government, or to the LBP, or to other qualified beneficiaries through the DAR

⁴⁹ Id. at 179.

⁵⁰ Id. at 179.

⁵¹ Id. at 178.

for a period of ten (10) years: Provided, however, That the children or the spouse of the transferor shall have a right to repurchase the land from the government or LBP within a period of two (2) years. (Emphasis and underscoring supplied.)

Beneficiaries are still enjoined to retain for themselves the lands they have been granted under existing agrarian reform laws, and the exceptions to this rule remain: the law shall allow transfers of awarded lands *via* hereditary succession, or transfers to the government, the Land Bank of the Philippines, or to other qualified beneficiaries through the DAR. But this rule under PD 27 is not anymore absolute with the new amendments in RA 6657 carried out by RA 9700. The prohibition shall now subsist for only a period of 10 years. After such retention period, lands acquired under existing agrarian reform laws may be sold, transferred, or conveyed to *any* party other than to the aforementioned exceptions. Effectively, the avowed public policy promoted by PD 27 is renewed, in that the fact of ownership of land beneficiaries is strengthened upon the law's permission for them to finally alienate the land. After all, ownership includes the power to dispose, and the removal of the absolute prohibition against dispositions and transfers involving awarded lands further empowers its grantees with the full exercise of the rights pertaining to that of a true owner.

The Court also emphasizes that rural banks are specifically permitted by law to foreclose lands mortgaged to it, subject to the conditions and provisions of RA 6657.⁵² Relatedly, Section 71 of RA 6657 allows banks and financial institutions in general to foreclose mortgages on agricultural lands:

Sec. 71. Bank Mortgages. – Banks and other financial institutions allowed by law to hold mortgage rights or security interests in agricultural lands to secure loans and other obligations of borrowers, may acquire title to these mortgaged properties, regardless of area, subject to existing laws on compulsory transfer of foreclosed assets and acquisition as prescribed under Section 13 of this Act.

In 2003, RA 7881⁵³ introduced Section 73-A into RA 6657, bolstering the legality of foreclosure sales executed by banks on failed mortgages over agricultural lands:

Sec. 73-A. Exception. — The provisions of Section 73, paragraph (E),⁵⁴ to the contrary notwithstanding, the sale and/or transfer of agricultural

⁵² Section 6 of RA 7353, entitled “AN ACT PROVIDING FOR THE CREATION, ORGANIZATION AND OPERATION OF RURAL BANKS, AND FOR OTHER PURPOSES,” approved on April 2, 1992 provides in pertinent part:

x x x x

A rural bank shall be allowed to foreclose lands mortgaged to it: Provided, That said lands shall be covered under Republic Act No. 6657.

⁵³ Entitled “AN ACT AMENDING CERTAIN PROVISIONS OF REPUBLIC ACT. NO. 6657, ENTITLED “AN ACT INSTITUTING A COMPREHENSIVE AGRARIAN REFORM PROGRAM TO PROMOTE SOCIAL JUSTICE AND INDUSTRIALIZATION, PROVIDING THE MECHANISM FOR ITS IMPLEMENTATION, AND FOR OTHER PURPOSES.” Approved: February 20, 1995.

⁵⁴ Section 73. *Prohibited Acts and Omissions.* – The following are prohibited:

x x x x

(e) The sale, transfer, conveyance or change of the nature of lands outside of urban centers and city limits either in whole or in part after the effectivity of this Act. The date of the registration of the deed of conveyance in the Register of Deeds with respect to titled lands and the date of the

land in cases where such sale, transfer or conveyance is made necessary as a result of a bank's foreclosure of the mortgaged land is hereby permitted.

Be that as it may, the facts of the case impel the Court to invalidate the foreclosure sale to respondent bank.

Records show that the EP covering the subject land was issued in favor of Jose on November 20, 1998. At the time the foreclosure sale was held on February 27, 2003, only four years had passed from the time he acquired the said land in his name. While respondent bank's right to foreclose the mortgage over the subject land properly had its basis on Jose's failure to pay the loan, it arose within the 10-year period during which Jose was supposed to keep the subject land to his name. There was, therefore, a factual impediment to respondent's action to foreclose the mortgage, and a legal imperative to await the lapse of the 10-year retention period before pursuing his cause against Jose. Nonetheless, the foreclosure sale proceeded. This violated the provisions of PD 27 and RA 6657, as amended by RA 9700.

Agreements that violate law and public policy are inexistent and void from the beginning. The Civil Code declares so, *viz.*:

ART. 1409. The following contracts are inexistent and void from the beginning:

(1) **Those whose cause, object or purpose is contrary to law, morals, good customs, public order or public policy;**

x x x x

These contracts cannot be ratified. Neither can the right to set up the defense of illegality be waived. (Emphasis supplied)

All said, the sale of the subject land by foreclosure to herein respondent bank, being violative of the law and public policy embodied in PD 27 and RA 6657 as amended by RA 9700, is void *ab initio*.

WHEREFORE, the petition is **GRANTED**. The December 10, 2013 Decision and Resolution dated March 13, 2014 of the Court of Appeals in CA-G.R. SP No. 126325 are **REVERSED and SET ASIDE**. The Petition for Cancellation of Transfer Certificate of Title No. EP-86727 filed by the respondent Rural Bank of Jaen, Inc. is **DISMISSED**.

The extrajudicial foreclosure of real estate mortgage on July 3, 2003 over the land located in Dampulan (now Vicente), Jaen, Nueva Ecija with an area of 2,257 square meters registered under the name of Jose E. de Lara per Transfer Certificate of Title No. EP-86727 is declared **VOID AB INITIO**.

issuance of the tax declaration to the transferee of the property with respect to unregistered lands, as the case may be, shall be conclusive for the purpose of this Act.

SO ORDERED.

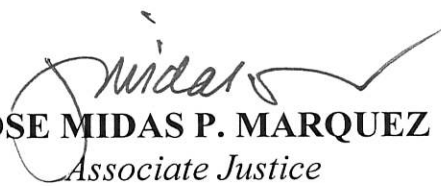

RAMON PAUL L. HERNANDO
Associate Justice

WE CONCUR:


ESTELA M. PERLAS-BERNABE
Senior Associate Justice
Chairperson

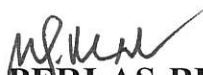

RODIL V. ZALAMEDA
Associate Justice


RICARDO R. ROSARIO
Associate Justice


JOSE MIDAS P. MARQUEZ
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.


ESTELA M. PERLAS-BERNABE
Senior Associate Justice
Chairperson

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.


ALEXANDER G. GESMUNDO
Chief Justice