Republic of the Philippines
Supreme Court
Manila

SECOND DIVISION

LETICIA NAGUIT AQUINO, MELVIN NAGUIT, ROMMEL NAGUIT, ELMA NAGUIT TAYAG, YSSEL L. NAGUIT, ROSALINA NAGUIT AUMENTADO, RIZEL NAGUIT CUNANAN, CARIDAD NAGUIT PARAJAS, MILLIE NAGUIT FLORENDO, MARNEL NAGUIT, EDUARDO NAGUIT, JOSE NAGUIT, ZOILO NAGUIT, AND AMELIA NAGUIT DIZON, represented by YSSEL L. NAGUIT,

Petitioners,

- versus -

CESAR B. QUIAZON, AMANDA QUIAZON, JOSE B. QUIAZON AND REYNALDO B. QUIAZON, represented by JAIME B. QUIAZON,

Respondents.

G.R. No. 201248

Present:

CARPIO, *J., Chairperson,*
BRION,
DEL CASTILLO,
MENDOZA, and
LEONEN, *JJ.*

Promulgated:

11 MAR 2015

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DECISION

MENDOZA, *J.*:

Before the Court is a petition for review on *certiorari* under Rule 45 of the Rules of Court assailing the March 13, 2012 Decision[1] of the Court of Appeals *(CA),* in CA-G.R. CV No. 92887, which affirmed the Orders[2] of the Regional Trial Court *(RTC),* Angeles City, Branch 59, in SP Civil Case No. 05-076, dismissing the complaint for quieting of title filed by the petitioners.

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[1] *Rollo*, pp. 21-32; penned by Associate Justice Amelita G. Tolentino, with Associate Justice Ramon R. Garcia and Associate Justice Samuel H. Gaerlan, concurring.
[2] Id. at 64-70 and 74-75.

The Facts

On December 16, 2005, a complaint[3] for Annulment and Quieting of Title was filed before the RTC-Branch 59 by the petitioners, namely, Leticia Naguit Aquino, Melvin Naguit, Rommel Naguit, Elma Naguit Tayag, Yssel L. Naguit, Rosalina Naguit Aumentado, Rizel Naguit Cunanan, Caridad Naguit Parajas, Millie Naguit Florendo, Marnel Naguit, Eduardo Naguit, Jose Naguit, Zoilo Naguit, and Amelia Naguit Dizon, represented by Yssel L. Naguit *(petitioners)*. They alleged that they were the heirs of the late Epifanio Makam and Severina Bautista, who acquired a house and lot situated in Magalang, Pampanga, consisting of 557 square meters, by virtue of a Deed of Sale, dated April 20, 1894; that since then, they and their predecessors-in-interest had been in open, continuous, adverse, and notorious possession for more than a hundred years, constructing houses and paying real estate taxes on the property; that sometime in June 2005, they received various demand letters from the respondents, namely, Cesar B. Quiazon, Amanda Quiazon, Jose B. Quiazon, and Reynaldo B. Quiazon, represented by Jaime B. Quiazon *(respondents)*, claiming ownership over the subject property and demanding that they vacate the same; that upon inquiry with the Register of Deeds of San Fernando, Pampanga, they confirmed that the property had been titled in the name of respondents under Transfer Certificate of Title (*TCT*) No. 213777-R; that the said title was invalid, ineffective, voidable or unenforceable; and that they were the true owners of the property.

Hence, they prayed that the title be cancelled and a new title be issued in their favor.

In their Answer,[4] respondents asserted that they were the absolute owners of the subject land as per TCT No. 213777-R; that they had inherited the same from their predecessor-in-interest, Fausta Baluyut, one of the registered owners under Original Certificate of Title (*OCT*) No. RO-1138 (11376), as per the Project of Partition and Deed of Agreement, dated January 2, 1974; and that petitioners had been occupying the property by mere tolerance. They denied the allegations in the complaint and proffered affirmative defenses with counterclaims.

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[3] Id. at 36-39.
[4] Id. at 48-52.

They argued that: *First,* the petitioners "have no valid, legal and sufficient cause of action" [5] against them, because their deed of sale was spurious and could not prevail over Land Registration Decree No. 122511 issued on June 28, 1919 in Land Registration Case No. 5, LRC Records No. 128, by the Court of First Instance of Pampanga, in favor of their predecessor-in-interest. The predecessors-in-interest of petitioners were among the oppositors in the land registration proceeding but, nevertheless, after the trial, the subject lot was awarded, decreed and titled in favor of respondents' predecessor-in-interest, as per OCT No. RO-1138 (11376) of the Registry of Deeds of Pampanga. *Second,* the action was barred by prescription and that petitioners were guilty of laches in asserting their interest over the subject lot, considering that Land Registration Decree No. 122511 was issued on June 28, 1919 and OCT No. RO-1138 (11376) was issued on May 12, 1922. Hence, it was much too late for petitioners to institute the action after more than 80 years. They also raised the settled rule that a title registered under the Torrens system could not be defeated by adverse, open and notorious possession, or by prescription. *Third,* the action was also barred by *res judicata* and violated the prohibition against forum shopping, considering that petitioners had earlier filed a similar case for quieting of title against respondents, docketed as Civil Case No. 5487, which the RTC-Br. 56 dismissed.

Petitioners filed their Comment to Defendant's Affirmative Defenses.[6] Anent the alleged lack of cause of action due to the spurious deed of sale, petitioners argued that this contention was a matter of evidence which might only be resolved in a full-blown trial. They insisted that the deed of sale was genuine and authentic and was issued and certified by the Deputy Clerk of Court of the RTC. They added that the settled rule was that to determine the sufficiency of the cause of action, only the facts alleged in the complaint should be considered, and that the allegations in their complaint sufficiently stated a cause of action.

As regards the allegation of prescription, the petitioners countered that an action to quiet title did not prescribe if the plaintiffs were in possession of the property in question. They argued that they were neither guilty of laches nor were they in possession of the property by mere tolerance, their possession being in the concept of owner for more than a hundred years.

Lastly, regarding the argument on *res judicata*, petitioners explained that they were not the same plaintiffs in Civil Case No. 5487 and that the case was dismissed without prejudice.

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[5] Id. at 49.
[6] Id. at 59-63.

The RTC set a preliminary hearing on the affirmative defenses.

Respondents presented Atty. Charlemagne Tiqui Calilung, RTC Clerk of Court of San Fernando, Pampanga, who presented the record of Cadastral Case No. 5, dated June 28, 1919, as well as Decree No. 122511. They also presented Luis Samuel Ragodon, the Registration Examiner of the Registry of Deeds of San Fernando, Pampanga, who presented the original copy of OCT No. 11376, reconstituted as RO-1138, and testified that the title was derived from Decree No. 122511. He further testified that the original title had been cancelled pursuant to a project of partition, which was registered on December 17, 1984, and in lieu thereof, TCT Nos. 213775, 213776, 213777, 213778, 213779, 213780, and 213781 were issued. He presented the original copy of TCT No. 213777-R issued in the names of respondents.

Henry Y. Bituin, the court interpreter who translated the June 28, 1919 decision of the Court of First Instance of Pampanga in Land Registration Case No. 5 from Spanish to English, also testified.

Petitioners manifested that they were opting to submit the incident for resolution without presenting evidence, relying on their position that only the facts alleged in the complaint should be considered.

In their formal offer of evidence,[7] respondents offered the following documents: (1) the June 28, 1919 Decision and its English translation; (2) Transmittal Letter, dated May 6, 1922; (3) Decree No. 122511; (4) OCT No. RO-1138; (5) TCT No. 213777-R; (6) the petition, dated July 29, 1988, and its annexes in Civil Case No. 5487; (7) the September 7, 1990 Order dismissing Civil Case No. 5487, without prejudice; and (8) the July 29, 1916 Decision in Expediente No. 132, G.L.R.O. Record No. 11958 and its English translation.

In their comment/opposition[8] to the formal offer of evidence, petitioners argued (1) that the claims of Epifanio Makam and Severina Bautista, their predecessors-in-interest, were not adjudicated in the June 28, 1919 decision and, thus, *res judicata* was inapplicable; (2) that Civil Case No. 5487 was dismissed without prejudice and that they were not the plaintiffs therein; (3) that the allegedly spurious nature of the deed of sale and the supposed indefeasibility of respondents' title were matters of

[7] Records, pp. 173-175.
[8] Id. at 279-283.

evidence to be resolved in a full-blown trial and the trial court was only confined to the allegations in the complaint; (4) that their action was not barred by prescription because an action to quiet title did not prescribe if the plaintiffs were in possession of the subject property and that they had been in possession in the concept of owner for more than 100 years; and (5) that respondents were guilty of laches having taken more than 80 years to attempt to enforce their claimed title to the property.

Ruling of the RTC

On July 14, 2008, the RTC-Br. 59 issued the Order dismissing petitioners' complaint. It found that based on the decision, dated June 28, 1919, in Cadastral Case No. 5, the Baluyut siblings, respondents' predecessors-in-interest, were declared the absolute owners of the subject property, over the claim of Jose Makam, the predecessor-in-interest of petitioners, who was one of the oppositors in the said case. From this decision, OCT No. RO-1138 (11376) was derived, which later became the subject of a project of partition and deed of agreement among the Baluyut siblings, dated January 2, 1972, which, in turn, was annotated on the OCT as Entry No. 8132. TCT No. 213777-R, covering the subject lot, was later derived from the partition. The RTC-Br. 59 also noted that it was stated in the said decision that in 1907, a warehouse was constructed on the subject lot by virtue of an agreement between the Chairman of Magalang and Enrique Baluyut, with no objection from the Makams. It was further noted that the deed of sale being asserted by petitioners was not mentioned in the 1919 decision despite the claim of their predecessors-in-interest.

The RTC-Br. 59, thus, ruled that the deed of sale had become invalid by virtue of the June 28, 1919 decision. It held that although the deed of sale dated, April 20, 1894, was never challenged, it was nevertheless unenforceable by virtue of the June 28, 1919 decision. It found that petitioners had lost whatever right they had on the property from the moment the said decision was rendered and an OCT was issued. Finding that petitioners were not holders of any legal title over the property and were bereft of any equitable claim thereon, the RTC-Branch 59 stated that the first requisite of an action to quiet title was miserably wanting. It also found the second requisite to be wanting because respondents had proved that the TCT registered in their names was valid.

Anent petitioners' argument that only the complaint may be considered in determining the sufficiency of the cause of action, the RTC-Br. 59 ruled that under Section 2 in relation to Section 6, Rule 16 of the Rules of Court, a preliminary hearing on the affirmative defense in the

answer might be had at the discretion of the court, during which the parties could present their arguments and their evidence.

On December 22, 2008, the RTC-Br. 59 denied petitioners' motion for reconsideration. It stated that the court may consider evidence presented in hearings related to the case, which was an exception to the general rule that only the complaint should be taken into consideration. It stated that petitioners were without legal or equitable title to the subject property, thus, lacking the legal personality to file an action for quieting of title and, therefore, "the complaint was properly dismissed for *failing to state a cause of action*."[9]

Ruling of the CA

In the assailed Decision, dated March 13, 2012, the CA dismissed petitioners' appeal. It explained that under Section 6, Rule 16 of the Rules of Court, a court is allowed to conduct a preliminary hearing, *motu proprio*, on the defendant's affirmative defenses, including the ground of "lack of cause of action or failure to state a cause of action."[10] It gave the reason that because the rule spoke in general terms, its manifest intention was to apply it to all grounds for a motion to dismiss under the rules which were pleaded as affirmative defenses in the responsive pleading. Thus, it held that the trial court might consider other evidence aside from the averments in the complaint in determining the sufficiency of the cause of action. The CA explained:

> But as shown in the foregoing rule, the holding of a preliminary hearing on any of the grounds for a motion to dismiss which is pleaded as an affirmative defense is within the full discretion of the trial court. The rule speaks of affirmative defenses that are grounds for a motion to dismiss. Indubitably, lack of cause of action or failure to state a cause of action, being one of the grounds for a motion to dismiss, is included thereby.
>
> Since the rule allows the trial court to conduct a preliminary hearing on this kind of an affirmative defense, it follows then that evidence could be submitted and received during the proceedings which the court may consider in forming its decision. It would be plain absurdity if the evidence already presented therein would not be allowed to be considered in resolving whether the case should be dismissed or not. To rule otherwise would render nugatory the provision of Section 6, Rule 16 and would make the holding of a preliminary hearing a plain exercise in futility. No well-meaning judge would hold a preliminary hearing and receive evidence only

[9] *Rollo*, p. 75.
[10] Id. at 28.

> to disregard later the evidence gathered in the course thereof. If the intention of the rule is for the trial court to confine itself to the allegations in the complaint in determining the sufficiency of the cause of action, as the plaintiffs-appellants would want to impress upon this Court, then it should have been so expressly stated by barring the court from conducting a preliminary hearing based on the said ground. The fact, however, that the said rule speaks in general terms, it is its manifest intention to apply it in all grounds for a motion to dismiss under the rules which are pleaded as an affirmative defense in the responsive pleading. Thus, we find that that trial court did not err in considering the evidence already presented and in not confining itself to the allegations in the plaintiffs-appeallants' complaint.[11]

The CA gave credence to the evidence presented by respondents and noted that, except for petitioners' bare allegation that respondents' title was invalid, there was nothing more to support the same. It further noted that the deed of sale was written in a local dialect without the translation and with no ascertainable reference to the area of the property being conveyed. The CA, therefore, found that petitioners did not have the title required to avail of the remedy of quieting of title, while respondents had sufficiently proven the validity of their Torrens title.

Hence, the subject petition.

ISSUE

Whether the CA erred in affirming the dismissal of petitioners' complaint on the ground of lack of cause of action or failure to state a cause of action.

Petitioners argue that the CA gravely erred in considering external factors beyond the allegations in the petition. They aver that it is a settled rule that to determine the sufficiency of a cause of action, only facts alleged in the complaint shall be considered, and it is error for the court to take cognizance of external facts or hold a preliminary hearing to determine their existence.

Respondents, on the other hand, echo the ruling of the CA that it was within the disrection of the trial court to conduct a preliminary hearing on the affirmative defense of lack of cause of action or failure to state a cause of action, where both parties were given the chance to submit arguments and evidence for or against the dismissal of the complaint. Furthermore, they

[11] Id. at 28-29.

argue that the Court has previously upheld cases where the court took into account external factors in the dismissal of the complaint on the ground of lack of cause of action. They assert that since petitioners were given reasonable opportunity to present evidence to prove their cause of action, they are now estopped from invoking the rule that only allegations in the complaint should be considered. [12]

Petitioners reiterate that they have been in possession of the property in the concept of owner for more than 119 years, where they built their houses, reared their families, and paid realty taxes thereon. They point out that their possession was never disputed by respondents, and that respondents had only attempted to enforce their supposed rights over the property in 2005, or 86 years after the purported decree awarding the property to them. Petitioners argue that respondents had abandoned their right to the subject property which, thus, rendered invalid whatever title they might have had. They argue that it has been held that a registered owner's right to recover possession and title to property may be converted into a stale demand by virtue of laches. They also claim that the allegations contained in their complaint sufficiently state a cause of action, and that it was an error for the trial court to declare it unenforceable considering that the deed of sale should be considered hypothetically admitted when determining whether the complaint sufficiently states a cause of action. [13]

Ruling of the Court

Preliminary matters

The Court notes that respondents raised the affirmative defense in their Answer that petitioners "have no valid, legal and sufficient cause of action," raising factual matters,[14] which is effectively the ground of "lack of cause of action." Respondents' arguments made no assertion that the complaint failed to state a cause of action. The ground of "lack of cause of action" has been frequently confused with the ground of "failure to state a cause of action," and this is the situation prevailing in the present case. The terms were, in fact, used interchangeably by both the respondents and the lower courts.

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[12] Id. at 155-161.
[13] Id. at 199-203.
[14] Id. at 49.

The distinction between the grounds of "failure to state a cause of action" and "lack of cause of action" was aptly discussed in *Dabuco vs. Court of Appeals*, to wit:

> As a preliminary matter, we wish to stress the distinction between the two grounds for dismissal of an action: failure to state a cause of action, on the one hand, and lack of cause of action, on the other hand. The former refers to the insufficiency of allegation in the pleading, the latter to the insufficiency of factual basis for the action. Failure to state a cause may be raised in a Motion to Dismiss under Rule 16, while lack of cause may be raised any time. Dismissal for failure to state a cause can be made at the earliest stages of an action. Dismissal for lack of cause is usually made after questions of fact have been resolved on the basis of stipulations, admissions or evidence presented.[15]

Although the two grounds were used interchangeably, it can be gleaned from the decisions of both the trial court and the CA that respondents' defense of "lack of cause of action" was actually treated as a "failure to state a cause of action," which is a ground for a motion to dismiss under Rule 16. This is apparent from their reliance on Section 6 of Rule 16, which pertains to grounds of a motion to dismiss raised as affirmative defenses; as well as the doctrines cited in resolving the case. The CA even referred to both as one and the same ground for a motion to dismiss when it stated that: "Indubitably, lack of cause of action or failure to state a cause of action, being one of the grounds for a motion to dismiss, is included thereby."[16]

Also confused, respondents, on their part, asserted that "it is within the discretion of the Court a quo to conduct a preliminary hearing on the affirmative defense of lack of cause of action or failure to state a cause of action,"[17] the very basis of their argument being hinged on the application of Section 6. They also insisted on the applicability of the exceptions to the general rule that only averments in the complaint must be considered, which pertains to the ground of "failure to state a cause of action."

The trial court held a preliminary hearing resolving the ground of "lack of cause of action" pursuant to Section 6 of Rule 16, which allows the court to hold a preliminary hearing on grounds for dismissal provided in the

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[15] 379 Phil. 939, 944-945 (2000).
[16] *Rollo*, p. 28.
[17] Id. at 90.

same rule that have been raised as an affirmative defense in the answer.[18] The ground of "lack of cause of action," as already explained, however, is not one of the grounds for a motion to dismiss under Rule 16, and hence, not proper for resolution during a preliminary hearing held pursuant to Section 6. On this point alone, the trial court clearly erred in receiving evidence on the ground of "lack of cause of action" during the preliminary hearing. The factual matters raised by respondents in their affirmative defense arguing the non-existence of a cause of action, should have been duly resolved during a trial on the merits of the case.

In any case, even if the Court were to treat respondents' argument as a "failure to state a cause of action," their defense would still fail.

Court limited to averments in the complaint

Rule 16 of the Rules of Court enumerates the grounds for a motion to dismiss. The pertinent ground is found under Section 1(g), which reads as follows:

x x x x

> **(g) That the pleading asserting the claim states no cause of action; xxxx (Emphasis supplied)**

The test for determining the existence of a cause of action was amply discussed in *Insular Investment and Trust Corporation v. Capital One Equities Corporation*,[19] citing *Perpetual Savings Bank v. Fajardo*,[20] to wit:

> **The familiar test for determining whether a complaint did or did not state a cause of action against the defendants is whether or not, admitting hypothetically the truth of the allegations of fact made in the complaint, a judge may validly grant the relief demanded in the complaint.** In *Rava Development Corporation v. Court of Appeals,* the Court elaborated on this established standard in the following manner:
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> > "The rule is that a defendant moving to dismiss a complaint on the ground of lack of cause of action is regarded as having hypothetically admitted all the averments thereof. The test of the sufficiency of the facts found in a petition as constituting a cause of

[18] Section 6. *Pleading grounds as affirmative defenses.* – If no motion to dismiss has been filed, any of the grounds for dismissal provided for in this Rule may be pleaded as an affirmative defense in the answer and, in the discretion of the court, a preliminary hearing may be had thereon as if a motion to dismiss had been filed.

x x x

[19] G.R. No. 183308, April 25, 2012, 671 SCRA 112.

[20] G.R. No. 79760, June 28, 1993, 223 SCRA 720.

> action is whether or not, admitting the facts alleged, the court can render a valid judgment upon the same in accordance with the prayer thereof (*Consolidated Bank and Trust Corp. v. Court of Appeals*, 197 SCRA 663 [1991]).
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> **In determining the existence of a cause of action, only the statements in the complaint may properly be considered.** It is error for the court to take cognizance of external facts or hold preliminary hearings to determine their existence. If the allegation in a complaint furnish sufficient basis by which the complaint may be maintained, the same should not be dismissed regardless of the defenses that may be assessed by the defendants (supra).[21]

Thus, in determining the existence of a cause of action, only the allegations in the complaint may properly be considered. For the court to do otherwise would be a procedural error and a denial of the plaintiff's right to due process.[22]

In the case at bench, petitioners' cause of action relates to an action to quiet title under Article 476 of the Civil Code, which provides:

> Article 476. Whenever there is a cloud on title to real property or any interest therein, by reason of any instrument, record, claim, encumbrance or proceeding which is apparently valid or effective but is in truth and in fact invalid, ineffective, voidable, or unenforceable, and may be prejudicial to said title, an action may be brought to remove such cloud or to quiet title.
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> An action may also be brought to prevent a cloud from being cast upon title to real property or any interest therein.

A "cloud on title" is an outstanding instrument, record, claim, encumbrance or proceeding which is actually invalid or inoperative, but which may nevertheless impair or affect injuriously the title to property. The matter complained of must have a *prima facie* appearance of validity or legal efficacy. The cloud on title is a semblance of title which appears in some legal form but which is in fact unfounded. The invalidity or inoperativeness of the instrument is not apparent on the face of such instrument, and it has to be proved by extrinsic evidence.[23]

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[21] *Insular Investment and Trust Corporation v. Capital One Equities Corporation*, supra note 19, at 142.
[22] *Indiana Aerospace University v. Commissioner of Higher Education*, 408 Phil. 483, 502 (2001).
[23] *Evangelista v. Santiago*, 497 Phil. 269, 290 (2005).

In order that an action for quieting of title may prosper, two requisites must concur: (1) the plaintiff or complainant has a legal or equitable title or interest in the real property subject of the action; and (2) the deed, claim, encumbrance, or proceeding claimed to be casting cloud on his title must be shown to be in fact invalid or inoperative despite its *prima facie* appearance of validity or legal efficacy.[24]

Turning then to petitioners' complaint, the relevant allegations as to the cause of action for quieting of title read as follows:

> 3. Plaintiffs are the heirs of the late Epifanio Makam and Severina Bautista who acquired a house and lot on 20 April 1894 situated in Magalang, Pampanga, consisting of Five Hundred Seventy Seven (577) square meters more or less, by virtue of a Deed of Sale, hereby quoted for ready reference:
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> x x x
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> 4. From 1894 and up to the present, plaintiffs and through their predecessors-in-interest have been in open, continuous, adverse and notorious possession for more than a hundred years of the piece of property mentioned above, constructed their houses thereon and dutifully and faithfully paid the real estate taxes on the said property;
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> 5. That sometime in June 2005, plaintiffs received various demand letters from defendants demanding plaintiffs to vacate the premises, claiming ownership of the subject property;
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> 6. That when plaintiffs inquired from the Office of the Register of Deeds of San Fernando, Pampanga, they were able to confirm that their property had been titled in the name of herein defendants under TCT No. 213777-R;
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> 7. That the said title is in fact invalid, ineffective, voidable or unenforceable, the existence of which is pre-judicial to the ownership and possession of plaintiffs who are the true owners and actual possessors of the above described real property;
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> 8. That equity demands that the said title be surrendered by defendants and cancelled as it is a cloud upon the legal or equitable title to or interest of plaintiffs over the subject property.[25]

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[24] *Phil-Ville Development and Housing Corporation v. Bonifacio*, G.R. No. 167391, June 8, 2011, 651 SCRA 327, 341.
[25] *Rollo*, pp. 37-39.

It is readily apparent from the complaint that petitioners alleged that (1) they had an interest over the subject property by virtue of a Deed of Sale, dated April 20, 1894; and that (2) the title of respondents under TCT No. 213777-R was invalid, ineffective, voidable or unenforceable. Hypothetically admitting these allegations as true, as is required in determining whether a complaint fails to state a cause of action, petitioners may be granted their claim. Clearly, the complaint sufficiently stated a cause of action. In resolving whether or not the complaint stated a cause of action, the trial court should have limited itself to examining the sufficiency of the allegations in the complaint. It was proscribed from inquiring into the truth of the allegations in the complaint or the authenticity of any of the documents referred or attached to the complaint, as these were deemed hypothetically admitted by the respondents.[26]

Evangelista v. Santiago elucidates:

> The affirmative defense that the Complaint stated no cause of action, similar to a motion to dismiss based on the same ground, requires a ***hypothetical admission*** of the facts alleged in the Complaint. In the case of *Garcon v. Redemptorist Fathers*, this Court laid down the rules as far as this ground for dismissal of an action or affirmative defense is concerned:
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> > It is already well-settled that in a motion to dismiss a complaint based on lack of cause of action, the question submitted to the court for determination is the sufficiency of the allegations of fact made in the complaint to constitute a cause of action, and not on whether these allegations of fact are true, for said motion must hypothetically admit the truth of the facts alleged in the complaint; that the test of the sufficiency of the facts alleged in the complaint is whether or not, admitting the facts alleged, the court could render a valid judgment upon the same in accordance with the prayer of said complaint. Stated otherwise, the insufficiency of the cause of action must appear in the face of the complaint in order to sustain a dismissal on this ground, for in the determination of whether or not a complaint states a cause of action, only the facts alleged therein and no other matter may be considered, and the court may not inquire into the truth of the allegations, and find them to be false before a hearing is had on the merits of the case; and it is improper to inject in the allegations of the complaint facts not alleged or proved, and use these as basis for said motion.[27] (Emphasis and underscoring supplied)

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[26] *Evangelista v. Santiago*, supra note 23, at 286.
[27] Id. at 285-286.

Exceptions and Section 6 of Rule 16 not applicable

The Court does not discount, however, that there are exceptions to the general rule that allegations are hypothetically admitted as true and inquiry is confined to the face of the complaint. *First*, there is no hypothetical admission of (a) the veracity of allegations if their falsity is subject to judicial notice; (b) allegations that are legally impossible; (c) facts inadmissible in evidence; and (d) facts which appear, by record or document included in the pleadings, to be unfounded.[28] *Second*, inquiry is not confined to the complaint if culled (a) from annexes and other pleadings submitted by the parties;[29] (b) from documentary evidence admitted by stipulation which disclose facts sufficient to defeat the claim; or (c) from evidence admitted in the course of hearings related to the case.[30]

Pointing to the exception that inquiry was not confined to the complaint if evidence had been presented in the course of hearings related to the case, the CA ruled that it was within the trial court's discretion to receive and consider other evidence aside from the allegations in the complaint in resolving a party's affirmative defense. It held that this discretion was recognized under Section 6 of Rule 16 of the Rules of Court, which allowed the court to conduct a preliminary hearing, *motu proprio*, on the defendant's affirmative defense if no corresponding motion to dismiss was filed. This section reads in part:

> **Section 6.** *Pleading grounds as affirmative defenses.* – If no motion to dismiss has been filed, any of the grounds for dismissal provided for in this Rule may be pleaded as an affirmative defense in the answer and, in the discretion of the court, a preliminary hearing may be had thereon as if a motion to dismiss had been filed.

In their answer, respondents raised the affirmative defenses of "lack of cause of action, prescription, and *res judicata*,"[31] stated in the following manner:

x x x x

> 6. Plaintiffs **have no valid, legal and sufficient cause of action** against the defendants. The alleged "deed of sale" (Annex "B" – Amended Complaint) is spurious and the same cannot prevail over the Land Registration Decree No. 122511 issued on June 28, 1919 in Land Registration Case No. 5, LRC Record No. 128, by the Court of First Instance of Pampanga, in favor of defendants' predecessor-in-interest. In fact, plaintiffs' predecessors-in-interest were among the

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[28] *Dabuco v. Court of Appeals*, 379 Phil. 939, 950-951 (2000).
[29] *Philippine Army v. Pamittan*, G.R. No. 187326, June 15, 2011, 652 SCRA 306, 312.
[30] *Dabuco v. Court of Appeals*, supra note 28; *Tan v. Director of Forestry*, 210 Phil. 244 (1983).
[31] *Rollo*, p. 27.

> oppositors in that land registration proceeding but after trial the lot in question was awarded, decreed and titled in favor and in the names of defendants' predecessors-in-interest, as per Original Certificate of Title No. RO-1138 (11376) of the Registry of Deeds of Pampanga;
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> 7. The instant action, which is actually an action of reconveyance, is already barred by **prescription**. Moreover, plaintiffs are guilty of laches in asserting their alleged title or interest over the subject lot. Said Land Registration Decree No. 122511 was issued on June 28, 1919 and OCT No. RO 1138 (11376) was issued on May 12, 1922. Clearly, it is much too late for the plaintiffs, after more than eighty (80) long years to institute this action against the defendants;
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> x x x x
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> 9. The present action is also barred by **res judicata** and violates the **prohibition against forum shopping**. There was already a prior similar case for quieting of title filed by plaintiffs' predecessor-in-interest against defendant Jaime Quiazon and his co-owners, before Branch 56 of this Honorable Court, docketed as Civil Case No. 5487, which was dismissed;[32] x x x x (Emphases supplied)

A review of the first ground under paragraph 6 of the answer reveals that respondents alleged that "[p]laintiffs **have no valid, legal and sufficient cause of action** against the defendants." It is at this point that it must again be emphasized that it is not "lack or absence of cause of action" that is a ground for dismissal of the complaint under Rule 16, but rather, that "**the complaint states no cause of action**."[33] The issue submitted to the court was, therefore, the determination of the sufficiency of the allegations in the complaint to constitute a cause of action and not whether those allegations of fact were true, as there was a hypothetical admission of facts alleged in the complaint.[34] An affirmative defense, raising the ground that there is *no cause of action* as against the defendants poses a question of fact that should be resolved after the conduct of the trial on the merits.[35] A reading of respondents' arguments in support of this ground readily reveals that the arguments relate not to the failure to state a cause of action, but to the existence of the cause of action, which goes into the very crux of the controversy and is a matter of evidence for resolution after a full-blown hearing.

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[32] Id. at 49-50.
[33] *San Lorenzo Village Association v. CA*, 351 Phil. 353, 365 (1998).
[34] *Far East Bank v. Court of Appeals*, 395 Phil. 701, 709 (2000).
[35] *Heirs of Paez v. Torres*, 381 Phil. 393, 402 (2000).

The trial court may indeed elect to hold a preliminary hearing on affirmative defenses as raised in the answer under Section 6 of Rules 16 of the Rules of Court. It has been held, however, that such a hearing is not necessary when the affirmative defense is failure to state a cause of action,[36] and that it is, in fact, error for the court to hold a preliminary hearing to determine the existence of external facts outside the complaint.[37] The reception and the consideration of evidence on the ground that the complaint fails to state a cause of action, has been held to be improper and impermissible.[38] Thus, in a preliminary hearing on a motion to dismiss or on the affirmative defenses raised in an answer, the parties are allowed to present evidence except when the motion is based on the ground of insufficiency of the statement of the cause of action which must be determined on the basis only of the facts alleged in the complaint and no other.[39] Section 6, therefore, does not apply to the ground that the complaint fails to state a cause of action. The trial court, thus, erred in receiving and considering evidence in connection with this ground.

The lower courts also relied on the exception that external evidence may be considered when received "in the course of hearings related to the case," which is rooted in the case of *Tan v. Director of Forestry (Tan)*.[40] In said case, a hearing was conducted on the prayer for preliminary injunction where evidence was submitted by the parties. In the meantime, a motion to dismiss was filed by the defendant, citing as one of the grounds that the petition did not state a cause of action. The trial court resolved the prayer for the issuance of a writ of preliminary injunction simultaneously with the motion to dismiss. It dismissed the petition for failure to state a cause of action on the basis of the evidence presented during the hearing for preliminary injuction. On appeal, this Court ruled that the trial court was correct in considering the evidence already presented and in not confining itself to the allegations in the petition.

Tan, however, is not on all fours with the present case. *First*, the trial court therein considered evidence presented during a preliminary hearing on an injunction and not during a hearing on a motion to dismiss. As discussed, a preliminary hearing on a motion to dismiss is proscribed when the ground is failure to state a cause of action. The exception of "hearings related to the case," therefore, pertains to hearings *other than* the hearing on a motion to dismiss on the ground of failure to state a cause of action. To reiterate, the

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[36] *Municipality of Binan v. Court of Appeals*, G.R. No. 94733, February 17, 1993, 219 SCRA 69, 76; *Misamis Occidental II Cooperative, Inc. v. David*, 505 Phil. 181, 188-189 (2005).
[37] *D.C. Crystal, Inc. v. Laya*, 252 Phil. 759, 768-769 (1989); *Del Bros Hotel Corporation v. Court of Appeals*, G.R. No. 87678, June 16, 1992 210 SCRA 33, 42-43; *Rava Development Corporation v. Court of Appeals*, G.R. No, 96825, July 3, 1992, 211 SCRA 144, 153.
[38] *Merrill Lynch Futures, Inc. v. Court of Appeals*, G.R. No. 97816, July 24, 1992, 211 SCRA 824, 835.
[39] Oscar M. Herrera, Remedial Law, (Quezon City, Philippines: Rex Book Store, Inc., 2007), Volume I, p. 1042; citing 1 Moran, p. 620, 1995 ed., citing *Asejo v. Lenoso*, 78 Phil. 467 (1947).
[40] *Tan v. Director of Forestry*, supra note 30.

ground that the complaint fails to state a cause of action should be tested only on the allegations of facts contained in the complaint, and no other. If the allegations show a cause of action, or furnish sufficient basis by which the complaint can be maintained, the complaint should not be dismissed regardless of the defenses averred by the defendants.[41] The trial court may not inquire into the truth of the allegations, and find them to be false before a hearing is conducted on the merits of the case.[42] If the court finds the allegations to be sufficient but doubts their veracity, the veracity of the assertions could be asserted during the trial on the merits.[43]

Second, *Tan* noted that the plaintiff had readily availed of his opportunity to introduce evidence during the hearing and, as a result, was estopped from arguing that the court is limited to the allegations in the complaint.[44] This is in contrast to the present case, where petitioners steadfastly argued from the beginning that the trial court was limited to the allegations in the complaint. Petitioners maintained their stance during the preliminary hearing on the affirmative defenses, opting not to file rebuttal evidence and opposing respondents' formal offer of evidence on the same ground. Having been consistent in their position from the start, petitioners cannot be estopped from arguing that the trial court was precluded from considering external evidence in resolving the motion to dismiss.

Third, it was noted in *Tan* that the documentary evidence given credence by the trial court had effectively been admitted by stipulation during the hearing,[45] and another had been an annex to the complaint,[46] both of which are exceptions to the general rule that external facts cannot be considered. Neither of the said exceptions is availing in the present case. The Court notes that only the OCT of respondents was attached as an annex to their answer. The June 28, 1919 Decision in the Cadastral case, which was given considerable weight by the trial court, was not attached and was only presented during the preliminary hearing.

Fourth, *Tan* ruled that the rigid application of the rules could not be countenanced considering the overriding public interest involved, namely, the welfare of the inhabitants of the province whose lives and properties would be directly and immediately imperilled by forest denudation.[47] There appears to be no overriding public interest in the present case to justify a similar relaxation of the rules.

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[41] *Hongkong & Shanghai Banking Corp., Ltd. v. Catalan*, 483 Phil. 525, 538 (2004).
[42] *Evangelista v. Santiago*, supra note 23.
[43] *Hongkong & Shanghai Banking Corp., Ltd. v. Catalan*, supra note 41.
[44] *Tan v. Director of Forestry*, supra note 30, at 255.
[45] Id. at 257.
[46] Id. at 260-261.
[47] Id. at 257-258.

It is of note that although the trial court might not have erred in holding a preliminary hearing on the affirmative defenses of prescription and *res judicata*, it is readily apparent from the decisions of the lower courts that no disquisition whatsoever was made on these grounds. It cannot be denied that evidence in support of the ground of "lack of cause of action" was received and given great weight by the trial court. In fact, all the evidence given credence by the trial court were only in support of the ground of "lack of cause of action." This all the more highlights that the trial court erred in receiving evidence to determine whether the complaint failed to state a cause of action.

Although neither the RTC or the CA ruled on the affirmative defenses of prescription and *res judicata*, it appears that this case could not have been dismissed on these grounds. *First,* an action to quiet title is imprescriptible if the plaintiffs are in possession of the property,[48] which is the situation prevailing in the present case. *Second*, there appears to be no *res judicata* nor a violation of the prohibition against forum shopping considering that Civil Case No. 5487 had been dismissed, without prejudice, years before petitioners initiated their complaint for quieting of title.

In sum, the trial court erred in dismissing the complaint on the ground of failure to state a cause of action. Evidence should have been received not during a preliminary hearing under Section 6 of Rule 16, but should have been presented during the course of the trial. The case should, thus, be remanded to the RTC-Br. 59 for trial on the merits.

WHEREFORE, the petition is **GRANTED**. The March 13, 2012 Decision of the Court of Appeals, in CA-G.R. CV No. 92887 is **REVERSED** and **SET ASIDE**. The case is ordered **REMANDED** to the Regional Trial Court for trial on the merits of the case.

SO ORDERED.

JOSE CATRAL MENDOZA
Associate Justice

[48] *Almarza v. Arguelles*, 240 Phil. 681, 685 (1987).

WE CONCUR:

ANTONIO T. CARPIO
Associate Justice
Chairperson

ARTURO D. BRION
Associate Justice

MARIANO C. DEL CASTILLO
Associate Justice

MARVIC M.V.F. LEONEN
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.

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