Republic of the Philippines
Supreme Court
Manila

EN BANC

SPOUSES JOSE MANUEL and MARIA ESPERANZA RIDRUEJO STILIANOPOULOS,
Petitioners,

- versus -

THE REGISTER OF DEEDS FOR LEGAZPI CITY and THE NATIONAL TREASURER,
Respondents.

G.R. No. 224678

Present:

CARPIO,
VELASCO, JR.,
LEONARDO-DE CASTRO,
PERALTA,*
BERSAMIN,
DEL CASTILLO,
PERLAS-BERNABE,
LEONEN,
JARDELEZA,*
CAGUIOA,
MARTIRES,
TIJAM,
REYES, JR., and
GESMUNDO, *JJ.*

Promulgated:

July 3, 2018

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DECISION

PERLAS-BERNABE, *J.*:

Assailed in this petition for review on *certiorari*[1] are the Decision[2] dated March 16, 2016 and the Resolution[3] dated May 19, 2016 of the Court of Appeals (CA) in CA-G.R. CV No. 104207, which partially reversed and

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* No part.

[1] *Rollo*, pp. 16-31.

[2] Id. at 36-52. Penned by Associate Justice Fernanda Lampas Peralta with Associate Justices Jane Aurora C. Lantion and Nina G. Antonio-Valenzuela concurring.

[3] Id. at 54-55.

set aside the Decision[4] dated August 19, 2013 and the Order[5] dated April 30, 2014 of the Regional Trial Court of Legazpi City, Albay, Branch 2 (RTC) in Civil Case No. 10805, and accordingly, held that the claim of petitioners Spouses Jose Manuel (Jose Manuel) and Maria Esperanza Ridruejo Stilianopoulos (collectively; petitioners) against the Assurance Fund is already barred by prescription.

The Facts

This case stemmed from a Complaint[6] for Declaration of Nullity of Transfer Certificate of Title (TCT) No. 42486, Annulment of TCT No. 52392 and TCT No. 59654, and Recovery of Possession of Lot No. 1320 with Damages (subject complaint) filed by petitioners against respondents The Register of Deeds for Legazpi City (RD-Legazpi) and The National Treasurer (National Treasurer), as well as Jose Fernando Anduiza (Anduiza), Spouses Rowena Hua-Amurao (Rowena) and Edwin Amurao (collectively; Spouses Amurao), and Joseph Funtanares Co, *et al.* (the Co Group) before the RTC.

Petitioners alleged that they own a 6,425-square meter property known as Lot No. 1320, as evidenced by TCT No. 13450[7] in the name of Jose Manuel, who is a resident of Spain and without any administrator of said property in the Philippines.[8] On October 9, 1995, Anduiza caused the cancellation of TCT No. 13450 and issuance of TCT No. 42486[9] in his name.[10]

Thereafter, Anduiza mortgaged Lot No. 1320 to Rowena.[11] As a result of Anduiza's default, Rowena foreclosed the mortgage, and consequently, caused the cancellation of TCT No. 42486 and issuance of TCT No. 52392[12] in her name on July 19, 2001.[13] On April 15, 2008, Rowena then sold Lot No. 1320 to the Co Group, resulting in the cancellation of TCT No. 52392 and issuance of TCT No. 59654[14] in the latter's name.[15]

According to petitioners, their discovery of the aforesaid transactions only on January 28, 2008 prompted them to file a complaint for recovery of title on May 2, 2008.[16] However, such complaint was dismissed for

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4 Id. at 151-166. Penned by Judge Ignacio N. Almodovar, Jr.
5 Id. at 176-178.
6 Dated February 24, 2009. Id. at 134-148.
7 Id. at 107-108.
8 See id. at 136.
9 Id. at 110-111.
10 See id. at 138.
11 See Deed of Real Estate Mortgage dated January 8, 1998; id. at 112-113. See also id. at 140-141.
12 Id. at 120-121.
13 See id. at 142.
14 Id. at 124.
15 See id. at 38.
16 See id. at 19.

petitioners' failure to allege the assessed value of Lot No. 1320. Thus, they filed the subject complaint on March 18, 2009, praying that: (*a*) TCT Nos. 42486, 52392, and 59654 in the respective names of Anduiza, Rowena, and the Co Group be annulled; (*b*) all defendants be held solidarily liable to pay petitioners damages and attorney's fees; and (*c*) the RD-Legazpi and the National Treasurer, through the Assurance Fund, be ordered to pay petitioners' claims should the defendants be unable to pay the same in whole or in part.[17] In support of their complaint, petitioners claimed that they were deprived of the possession and ownership of Lot No. 1320 without negligence on their part and through fraud, and in consequence of errors, omissions, mistakes, or misfeasance of officials and employees of RD-Legazpi.[18]

In their defense, Spouses Amurao and the Co Group both maintained that they purchased Lot No. 1320 in good faith and for value, and that petitioners' cause of action has already prescribed, considering that they only had ten (10) years from the issuance of TCT No. 42486 in the name of Anduiza on October 9, 1995 within which to file a complaint for recovery of possession.[19] For their part,[20] the RD-Legazpi and the National Treasurer also invoked the defense of prescription, arguing that the right to bring an action against the Assurance Fund must be brought within six (6) years from the time the cause of action occurred, or in this case, on October 9, 1995 when Anduiza caused the cancellation of petitioners' TCT over Lot No. 1320.[21] Notably, Anduiza did not file any responsive pleading despite due notice.[22]

The RTC Ruling

In a Decision[23] dated August 19, 2013 the RTC: (*a*) dismissed the case against Spouses Amurao and the Co Group as they were shown to be purchasers in good faith and for value; and (*b*) found Anduiza guilty of fraud in causing the cancellation of petitioners' TCT over Lot No. 1320, and thus, ordered him to pay petitioners the amount of ₱5,782,500.00 representing the market value of Lot No. 1320, as well as ₱10,000.00 as exemplary damages; and (*c*) held the National Treasurer, as custodian of the Assurance Fund, subsidiarily liable to Anduiza's monetary liability should the latter be unable to fully pay the same.[24]

Prefatorily, the RTC characterized the subject complaint filed on March 18, 2009 as one for reconveyance based on an implied trust, which is

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[17] See id. at 146-147. See also id. at 40.
[18] Id. at 145.
[19] See id. at 40.
[20] See Comment dated June 19, 2017; id. at 77-101.
[21] See id. at 35. See also id. at 41.
[22] Id. at 153.
[23] Id. at 151-166.
[24] See id. at 163 and 165-166.

subject to extinctive prescription of ten (10) years ordinarily counted from the time of the repudiation of the trust, *i.e.*, when Anduiza registered TCT No. 42486 in his name on October 9, 1995. This notwithstanding, the RTC found that since: (*a*) petitioners are residing in Spain; (*b*) they are in possession of the owner's duplicate copy of TCT No. 13450 registered in their names; and (*c*) Anduiza's act of fraudulently cancelling their title was unknown to – if not effectively concealed from – them, the ten (10)-year prescriptive period should be reckoned from their actual discovery of the fraud in 2008.[25] As such, petitioners' complaint for reconveyance – as well as their claim against the Assurance Fund which has a six (6)-year prescriptive period – has not prescribed.[26]

Anent the merits of the case, the RTC found that Anduiza had indeed acquired title over Lot No. 1320 in bad faith and through fraud – a fact which is further highlighted by his failure to refute petitioner's allegations against him on account of his omission to file a responsive pleading despite due notice.[27] This notwithstanding, the RTC held that petitioners could no longer recover Lot No. 1320 from Spouses Amurao and/or the Co Group as the latter are innocent purchasers for value and in good faith, absent any evidence to the contrary. As such, it is only proper that Anduiza be made to pay compensatory damages corresponding to the value of the loss of property, as well as exemplary damages as stated above.[28]

Finally, the RTC found that Anduiza alone could not have perpetrated the fraud without the active participation of the RD-Legazpi. It then proceeded to point out that the evidence on record clearly established the irregularities in the cancellation of petitioners' title and the issuance of Anduiza's title, all of which cannot be done successfully without the complicity of the RD-Legazpi. Hence, the Assurance Fund may be held answerable for the monetary awards in favor of petitioners, should Anduiza be unable to pay the same in whole or in part.[29]

Aggrieved, petitioners moved for reconsideration,[30] while the RD-Legazpi and the National Treasurer moved for a partial reconsideration;[31] both of which were denied in an Order[32] dated April 30, 2014. Thus, they filed their respective notices of appeal.[33] However, in an Order[34] dated June 11, 2014, petitioners' notice of appeal was denied due course due to their

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[25] See id. at 163-165.
[26] See id. at 165.
[27] See id. at 163.
[28] See id. at 165.
[29] See id. at 163.
[30] Petitioners' motion for reconsideration is not attached to the *rollo*.
[31] See Motion for Partial Reconsideration dated September 9, 2013; *rollo*, pp. 167-174.
[32] Id. at 176-178.
[33] See Notices of Appeal filed by petitioners dated May 26, 2014 (id. at 179-180) and by the Office of the Solicitor General in behalf of the RD-Legazpi and the National Treasurer dated June 3, 2014 (id. at 181-182).
[34] Id. at 183.

failure to pay the appellate docket and other lawful fees.[35] Consequently, the Co Group moved for a partial entry of judgment,[36] which the RTC granted in an Order[37] dated July 22, 2014. As such, only the appeal of the RD-Legazpi and the National Treasurer questioning the subsidiary liability of the Assurance Fund was elevated to the CA.[38]

The CA Ruling

In a Decision[39] dated March 16, 2016, the CA reversed and set aside the RTC's ruling insofar as the National Treasurer's subsidiary liability was concerned.[40] It held that petitioners only had six (6) years from the time Anduiza caused the cancellation of TCT No. 13450 on October 9, 1995, or until October 9, 2001, within which to claim compensation from the Assurance Fund. Since petitioners only filed their claim on March 18, 2009, their claim against the Assurance Fund is already barred by prescription.[41]

Dissatisfied, petitioners moved for reconsideration,[42] which was, however, denied in a Resolution[43] dated May 19, 2016; hence, this petition.[44]

The Issue Before the Court

The essential issue for resolution is whether or not the CA correctly held that petitioners' claim against the Assurance Fund has already been barred by prescription.

The Court's Ruling

The petition is granted.

I. Nature and Purpose of the Assurance Fund

It is a fundamental principle that "a Torrens certificate of Title is indefeasible and binding upon the whole world unless it is nullified by a court of competent jurisdiction x x x in a direct proceeding for cancellation of title."[45] "The purpose of adopting a Torrens System in our jurisdiction is

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[35] See id.
[36] See Motion for Partial Entry of Judgment dated July 1, 2014; id. at 184-188.
[37] Id. at 191-193.
[38] See id. at 37.
[39] Id. at 36-52.
[40] See id. at 51.
[41] See id. at 49.
[42] See Motion for Reconsideration dated April 4, 2016; id. at 256-266.
[43] Id. at 54-55.
[44] Id. at 16-31.
[45] *Co v. Militar*, 466 Phil. 217, 224 (2004).

to guarantee the integrity of land titles and to protect their indefeasibility once the claim of ownership is established and recognized. This is to avoid any possible conflicts of title that may arise by giving the public the right to rely upon the face of the Torrens title and dispense with the need of inquiring further as to the ownership of the property."[46]

As a corollary, "every person dealing with registered land may safely rely on the correctness of the certificate of title issued therefor and the law will in no way oblige him to go behind the certificate to determine the condition of the property. When a certificate of title is clean and free from any encumbrance, potential purchasers have every right to rely on such certificate. **Individuals who rely on a clean certificate of title in making the decision to purchase the real property are often referred to as 'innocent purchasers for value' and 'in good faith.'"**[47] **"Where innocent third persons, relying on the correctness of the certificate of title thus issued, acquire rights over the property[,] the court cannot disregard such rights and order the total cancellation of the certificate**. The effect of such an outright cancellation would be to impair public confidence in the certificate of title, for everyone dealing with property registered under the Torrens system would have to inquire in every instance whether the title has been regularly or irregularly issued."[48]

The rationale for the rule on innocent purchasers for value "is the public's interest in sustaining 'the indefeasibility of a certificate of title, as evidence of the lawful ownership of the land or of any encumbrance' on it."[49] Notably, the term "innocent purchaser for value" may also refer to an innocent mortgagee who had no knowledge of any defects in the title of the mortgagor of the property, such as in this case.

However, while "public policy and public order demand x x x that titles over lands under the Torrens system should be given stability for on it greatly depends the stability of the country's economy[,] x x x **[p]ublic policy also dictates that those unjustly deprived of their rights over real property by reason of the operation of our registration laws be afforded remedies**."[50] Thus, as early as the 1925 case of *Estrellado v. Martinez*,[51] it has been discerned that remedies, such as an action against the Assurance Fund, are available remedies to the unwitting owner:

> The authors of the Torrens system x x x wisely included provisions intended to safeguard the rights of prejudiced parties rightfully entitled to an interest in land but shut off from obtaining titles thereto [because of the

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46 See *Casimiro Development Corporation v. Mateo*, 670 Phil. 311, 323 (2011), as cited in *Cagatao v. Almonte*, 719 Phil. 214, 253 (2013).

47 *Register of Deeds of Negros Occidental v. Anglo, Sr.*, 765 Phil. 714, 731 (2015); citations omitted.

48 See *Spouses Aboitiz v. Spouses Po*, G.R. Nos. 208450 & 208497, June 5, 2017.

49 See id.

50 *People v. Cainglet*, 123 Phil. 568, 573 (1966).

51 48 Phil. 256 (1925).

> indefeasibility of a Torrens title]. **[Therefore,] [a]s suppletory to the registration of titles, pecuniary compensation by way of damages was provided for in certain cases for persons who had lost their property. For this purpose, an assurance fund was created.** x x x[52] (Emphasis and underscoring supplied)

The Assurance Fund is a long-standing feature of our property registration system which is intended "**to relieve innocent persons from the harshness of the doctrine that a certificate is conclusive evidence of an indefeasible title to land** x x x."[53] Originally, claims against the Assurance Fund were governed by Section 101[54] of Act No. 496, otherwise known as the "Land Registration Act." The language of this provision was substantially carried over to our present "Property Registration Decree," *i.e.*, Presidential Decree No. (PD) 1529,[55] Section 95 of which reads:

> Section 95. *Action for compensation from funds.* – A person who, without negligence on his part, sustains **loss or damage, or is deprived of land or any estate or interest therein in consequence of the bringing of the land under the operation of the Torrens system** or arising after original registration of land, through fraud or in consequence of any error, omission, mistake or misdescription in any certificate of title or in any entry or memorandum in the registration book, and who by the provisions of this Decree is barred or otherwise precluded under the provision of any law from bringing an action for the recovery of such land or the estate or interest therein, may bring an action in any court of competent jurisdiction for the recovery of damages to be paid out of the Assurance Fund.

In *Register of Deeds of Negros Occidental v. Anglo, Sr.*[56] (*Anglo, Sr.*), the Court held that "[b]ased solely on Section 95 of Presidential Decree No. 1529, the following conditions must be met: ***First***, the individual must sustain loss or damage, or the individual is deprived of land or any estate or interest. ***Second***, the individual must not be negligent. ***Third***, the loss, damage, or deprivation is the consequence of either (*a*) **fraudulent registration under the Torrens system after the land's original registration**, or (*b*) any error, omission, mistake, or misdescription in any

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[52] Id. at 263.

[53] See id. at 264.

[54] Section 101 of Act No. 496 reads:

> Section 101. Any person who without negligence on his part sustains loss or damage through any omission, mistake, or misfeasance of the clerk, or register of deeds, or of any examiner of titles, or of any deputy or clerk of the register of deeds in the performance of their respective duties under the provisions of this Act, and any person who is wrongfully deprived of any land or any interest therein, without negligence on his part, through the bringing of the same under the provisions of this Act or by the registration of any other person as owner of such land, or by any mistake, omission, or misdescription in any certificate or owner's duplicate, or in any entry or memorandum in the register or other official book, or by any cancellation, and who by the provisions of this Act is barred or in any way precluded from bringing an action for the recovery of such land or interest therein, or claim upon the same, may bring in any court of competent jurisdiction an action against the Treasurer of the Philippine Archipelago for the recovery of damages to be paid out of the assurance fund.

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

[56] Supra note 47.

certificate of title or in any entry or memorandum in the registration book. *[And]* ***[f]ourth,*** the individual must be barred or otherwise precluded under the provision of any law from bringing an action for the recovery of such land or the estate or interest therein."[57]

Anent the first ground (*i.e.*, item [a] of the third condition above), it should be clarified that loss, damage, or deprivation of land or any estate or interest therein through fraudulent registration alone is not a valid ground to recover damages against the Assurance Fund. Section 101 of PD 1529 explicitly provides that "[t]he Assurance Fund shall **not** be liable for any loss, damage or deprivation caused or occasioned by **a breach of trust, whether express, implied or constructive** or by any mistake in the resurvey or subdivision of registered land resulting in the expansion of area in the certificate of title." It is hornbook doctrine that "[w]hen a party uses fraud or concealment to obtain a certificate of title of property, a constructive trust is created in favor of the defrauded party."[58] However, as stated in Section 101 of PD 1529, the inability to recover from the defrauding party does not make the Assurance Fund liable therefor.

Instead, the loss, damage or deprivation becomes compensable under the Assurance Fund when the property has been further registered in the name of an innocent purchaser for value. This is because in this instance, the loss, damage or deprivation are not actually caused by any breach of trust but rather, by the operation of the Torrens system of registration which renders indefeasible the title of the innocent purchaser for value. **To note, it has been held that a mortgagee in good faith (such as Rowena) stands as an innocent mortgagee for value with the rights of an innocent purchaser for value.**[59]

In the 1916 case of *Dela Cruz v. Fabie*,[60] the Court discussed that it is necessary for the property to have transferred to a registered innocent purchaser – not to a mere registered purchaser – before recovery from the Assurance Fund may prosper, *viz.*:

> The Attorney-General did not err when he wrote in his brief in the preceding case: "To hold that the principal may recover damages from the assurance fund on account of such a fraudulent act as that charged to Vedasto Velazquez in this case would be equivalent to throwing open the door to fraud, to the great advantage of the registered landowner and his agent and to the ruin and rapid disappearance of the assurance fund, and the general funds of the Insular Treasury would become liable for the

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[57] See id. at 736.

[58] See *Spouses Aboitiz v. Spouses* Po, supra note 48. See also Article 1456 of the Civil Code, which provides:

> Article 1456. If property is acquired through mistake or fraud, the person obtaining it is, by force of law, considered a trustee of an implied trust for the benefit of the person from whom the property comes.

[59] See *Metropolitan Bank and Trust Company v. Tan*, 226 Phil. 264, 274 (1986).

[60] 35 Phil. 144 (1916).

> claims for indemnity in cases where none such was due. This course would in time wreck the Insular Treasury and enrich designing scoundrels." (Brief, p. 16.)
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> x x x x
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> The simple allegation contained in the complaint that Fabie is a *registered purchaser* is not the same as that of his being a registered innocent purchaser. The fact of the sale and the fact of the registration are not sufficient to allow the understanding that it was also admitted in the demurrer that he was an *innocent* purchaser.
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> There is no law or doctrine that authorizes such an interpretation. The plaintiff must set forth in his complaint all the facts that necessarily conduce toward the result sought by his action. The action was for the purpose of recovering from the assurance fund indemnity for the damage suffered by the plaintiff in losing the ownership of his land as a result of the registration obtained by an innocent holder for value (purchase). <u>**It is a necessary requirement of the law that the registered property shall have been conveyed to an innocent holder for value who shall also have registered his acquisition.**</u> Necessarily the complaint must show these facts as they are required by the law. x x x[61] (Emphasis and underscoring supplied)

Later, in the 1936 case of *La Urbana v. Bernardo*,[62] the Court qualified that "it is a condition *sine qua non* that the person who brings an action for damages against the assurance fund be the registered owner, <u>**and, as to holders of transfer certificates of title, that they be innocent purchasers in good faith and for value**</u>."[63]

In sum, the Court herein holds that an action against the Assurance Fund on the ground of "fraudulent registration under the Torrens system after the land's original registration" may be brought only after the claimant's property is registered in the name of an innocent purchaser for value. This is because it is only after the registration of the innocent purchaser for value's title (and not the usurper's title which constitutes a breach of trust) can it be said that the claimant effectively "sustains loss or damage, or is deprived of land or any estate or interest therein ***in consequence of the bringing of the land under the operation of the Torrens system.***" The registration of the innocent purchaser for value's title is therefore a condition *sine qua non* in order to properly claim against the Assurance Fund.

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61 Id. at 154 and 161.

62 62 Phil. 790 (1936).

63 Id. at 803; emphasis and underscoring supplied.

II. Action for Compensation Against the Assurance Fund; Prescriptive Period

An action for compensation against the Assurance Fund is a separate and distinct remedy, apart from review of decree of registration or reconveyance of title, which can be availed of when there is an unjust deprivation of property.[64] This is evident from the various provisions of Chapter VII of PD 1529 which provide for specific parameters that govern the action.

Among others, Section 95 of PD 1529 cited above states the conditions to claim against the Assurance Fund. Meanwhile, Section 96 of the same law states against whom the said action may be filed:

> Section 96. *Against whom action filed.* – If such action is brought to recover for loss or damage or for deprivation of land or of any estate or interest therein arising wholly through fraud, negligence, omission, mistake or misfeasance of the court personnel, Register of Deeds, his deputy, or other employees of the Registry in the performance of their respective duties, the action shall be brought against the Register of Deeds of the province or city where the land is situated and the National Treasurer as defendants. **But if such action is brought to recover for loss or damage or for deprivation of land or of any interest therein arising through fraud, negligence, omission, mistake or misfeasance of person other than court personnel, the Register of Deeds, his deputy or other employees of the Registry, such action shall be brought against the Register of Deeds, the National Treasurer and other person or persons, as co-defendants**. It shall be the duty of the Solicitor General in person or by representative to appear and to defend all such suits with the aid of the fiscal of the province or city where the land lies: Provided, however, that nothing in this Decree shall be construed to deprive the plaintiff of any right of action which he may have against any person for such loss or damage or deprivation without joining the National Treasurer as party defendant. **In every action filed against the Assurance Fund, the court <u>shall</u> consider the report of the Commissioner of Land Registration.** (Emphases and underscoring supplied)

As Section 96 of PD 1529 provides, "if [the] action is brought to recover for loss or damage or for deprivation of land or of any interest therein arising through fraud, negligence, omission, mistake or misfeasance of person other than court personnel, the Register of Deeds, his deputy or other employees of the Registry, such action shall be brought against the Register of Deeds, the National Treasurer and other person or persons, as co-defendants." The phrase "other person or persons" would clearly include the usurper who fraudulently registered the property under his name.

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64 See Noblejas, A. and Noblejas, E., *Registration of Land Titles and Deeds*, 2007 Revised Edition, pp. 260-261. See also *Heirs of Roxas v. Garcia*, 479 Phil. 918, 928-929 (2004).

To recover against the Assurance Fund, however, it must appear that the execution against "such defendants other than the National Treasurer and the Register of Deeds" is "returned unsatisfied in whole and in part." "[O]nly then shall the court, upon proper showing, order the amount of the execution and costs, or so much thereof as remains unpaid, to be paid by the National Treasurer out of the Assurance Fund." Section 97 of PD 1529 states:

> Section 97. *Judgment, how satisfied.* – If there are defendants other than the National Treasurer and the Register of Deeds and judgment is entered for the plaintiff and against the National Treasury, the Register of Deeds and any of the other defendants, **execution shall first issue against such defendants other than the National Treasurer and the Register of Deeds. If the execution is returned unsatisfied in whole or in part, and the officer returning the same certificates that the amount due cannot be collected from the land or personal property of such other defendants, only then shall the court, upon proper showing, order the amount of the execution and costs, or so much thereof as remains unpaid, to be paid by the National Treasurer out of the Assurance Fund**. In an action under this Decree, the plaintiff cannot recover as compensation more than the fair market value of the land at the time he suffered the loss, damage, or deprivation thereof. (Emphasis supplied)

Based on the afore-cited provision, it is apparent that a prior declaration of insolvency or inability to recover from the usurper is *not* actually required before the claimant may file an action against the Assurance Fund. Whether or not funds are to be paid out of the Assurance Fund is a matter to be determined and resolved at the execution stage of the proceedings. Clearly, this should be the proper treatment of the insolvency requirement, contrary to the insinuation made in previous cases on the subject.[65]

Another important provision in Chapter VII of PD 1529 is Section 102, which incidentally stands at the center of the present controversy. This provision sets a six (6)-year prescriptive period "from the time the right to bring such action first occurred" within which one may proceed to file an action for compensation against the Assurance Fund, *viz.*:

> Section 102. *Limitation of Action.* – Any action for compensation against the Assurance Fund by reason of any loss, damage or deprivation of land or any interest therein shall be instituted **within a period of six years from the time the right to bring such action first occurred**:

[65] In *Tenio-Obsequio v. CA* (*Tenio-Obsequio*) (G.R. No. 107697, March 1, 1994, 230 SCRA 550), it was stated that "[t]he remedy of the person prejudiced is to bring an action for damages against those who caused or employed the fraud, and **if the latter are insolvent, an action against the Treasurer of the Philippines may be filed for recovery of damages against the Assurance Fund**." (Id. at 560-561; citation omitted) The highlighted phrase suggests that it is only when the person who caused or employed the fraud is insolvent may an action to recover against the Assurance Fund lie. See also *Heirs of Roxas v. Garcia* (id. at 928-929), *Philippine National Bank v. CA* (265 Phil. 703 [1990]), and *Blanco v. Esquierdo* (110 Phil. 494 [1960]) which had similar pronouncements with that in *Tenio-Obsequio*.

> Provided, That the right of action herein provided shall survive to the legal representative of the person sustaining loss or damage, unless barred in his lifetime; and Provided, further, That if at the time such right of action first accrued the person entitled to bring such action was a minor or insane or imprisoned, or otherwise under legal disability, such person or anyone claiming from, by or under him may bring the proper action at any time within two years after such disability has been removed, notwithstanding the expiration of the original period of six years first above provided. (Emphasis supplied)

Jurisprudence has yet to interpret the meaning of the phrase "*from the time the right to bring such action first occurred*"; hence, the need to clarify the same.

The general rule is that "a right of action accrues only from the moment the right to commence the action comes into existence, and prescription begins to run from that time x x x."[66] However, in cases involving fraud, the common acceptation is that the period of prescription runs from the discovery of the fraud. Under the old Code of Civil Procedure, an action for relief on the ground of fraud prescribes in four years, "but the right of action in such case shall not be deemed to have accrued *until the discovery of the fraud*."[67] Meanwhile, under prevailing case law, "[w]hen an action for reconveyance is based on fraud, it must be filed within four (4) years *from discovery of the fraud*, and such discovery is deemed to have taken place from the issuance of the original certificate of title. x x x The rule is that the registration of an instrument in the Office of the RD constitutes constructive notice to the whole world and therefore the discovery of the fraud is deemed to have taken place at the time of registration."[68]

However, in actions for compensation against the Assurance Fund grounded on fraud, registration of the innocent purchaser for value's title should only be considered as a condition *sine qua non* to file such an action and not as a form of constructive notice for the purpose of reckoning prescription. This is because the concept of registration *as a form of constructive notice* is essentially premised on the policy of protecting the innocent purchaser for value's title, which consideration does not, however, obtain in Assurance Fund cases. As earlier intimated, an action against the Assurance Fund operates as form of relief in favor of the original property owner who had been deprived of his land by virtue of the operation of the Torrens registration system. It does not, in any way, affect the rights of the innocent purchaser for value who had apparently obtained the property from a usurper but nonetheless, stands secure because of the indefeasibility of his Torrens certificate of title. The underlying rationale for the constructive notice rule – given that it is meant to protect the interest of the innocent

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[66] *Fernandez v. P. Cuerva & Co.*, 129 Phil. 332, 337 (1967).
[67] *Rone v. Claro*, 91 Phil. 250, 252 (1952).
[68] *D.B.T. Mar Bay Construction, Inc. v. Panes*, 612 Phil. 93, 109 (2009).

purchaser for value and not the original title holder/claimant – is therefore absent in Assurance Fund cases. Accordingly, it should not be applied, especially since its application with respect to reckoning prescription would actually defeat the Assurance Fund's laudable purpose.

The Assurance Fund was meant as a form of State insurance that allows recompense to an original title holder who, without any negligence on his part whatsoever, had been apparently deprived of his land initially by a usurper. The ordinary remedies against the usurper would have allowed the original title holder to recover his property. However, if the usurper is able to transfer the same to an innocent purchaser for value and he is unable to compensate the original title holder for the loss, then the latter is now left without proper recourse. As exemplified by this case, original title holders are, more often than not, innocently unaware of the unscrupulous machinations of usurpers and later on, the registration of an innocent purchaser for value's title. If the constructive notice rule on registration were to apply in cases involving claims against the Assurance Fund, then original title holders – who remain in possession of their own duplicate certificates of title, as petitioners in this case – are in danger of losing their final bastion of recompense on the ground of prescription, despite the lack of any negligence or fault on their part. Truly, our lawmakers would not have intended such an unfair situation. As repeatedly stated, the intent of the Assurance Fund is to indemnify the innocent original title holder for his property loss, which loss is attributable to not only the acts of a usurper but ultimately the operation of the Torrens System of registration which, by reasons of public policy, tilts the scales in favor of innocent purchasers for value.

Thus, as aptly pointed out by Associate Justice Marvic M.V.F. Leonen during the deliberations on this case, the constructive notice rule on registration should not be made to apply to title holders who have been unjustly deprived of their land without their negligence. The actual title holder cannot be deprived of his or her rights twice – first, by fraudulent registration of the title in the name of the usurper and second, by operation of the constructive notice rule upon registration of the title in the name of the innocent purchaser for value. **As such, prescription, for purposes of determining the right to bring an action against the Assurance Fund, should be reckoned from the moment the innocent purchaser for value registers his or her title *and* upon actual knowledge thereof of the original title holder/claimant**. *As above-discussed, the registration of the innocent purchaser for value's title is a prerequisite for a claim against the Assurance Fund on the ground of fraud to proceed, while actual knowledge of the registration is tantamount to the discovery of the fraud.* More significantly, this interpretation preserves and actualizes the intent of the law, and provides some form of justice to innocent original title holders. In *Alonzo v. Intermediate Appellate Court*,[69] this Court exhorted that:

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[69] 234 Phil. 267, 272-273 (1987).

> [I]n seeking the meaning of the law, the first concern of the judge should be to discover in its provisions the intent of the lawmaker. Unquestionably, the law should never be interpreted in such a way as to cause injustice as this is never within the legislative intent. An indispensable part of that intent, in fact, for we presume the good motives of the legislature, is to render justice.
>
> Thus, we interpret and apply the law not independently of but in consonance with justice. Law and justice are inseparable, and we must keep them so. x x x[70]

In this case, it has been established that petitioners are residents of Spain and designated no administrator over their property, *i.e.*, Lot No. 1320, in the Philippines. They remain in possession of the owner's duplicate copy of TCT No. 13450 in their names,[71] the surrender of which was necessary in order to effect a valid transfer of title to another person through a voluntary instrument.[72] As the records show, not only did Anduiza, the usurper, forge a deed of sale purportedly transferring petitioners' property in his favor,[73] they were also not required by the RD-Legazpi or through a court order to surrender possession of their owner's duplicate certificate of title for the proper entry of a new certificate of title[74] in Anduiza's favor. Neither was the issuance of TCT No. 42486 in the name of Anduiza recorded/registered in the Primary Entry Book, nor was a copy of the deed

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[70] Id. at 272.

[71] See *rollo*, p. 136.

[72] Section 53 of PD 1529 states:

> Section 53. *Presentation of owner's duplicate upon entry of new certificate.* – **No voluntary instrument shall be registered by the Register of Deeds, unless the owner's duplicate certificate is presented with such instrument, except in cases expressly provided for in this Decree or upon order of the court, for cause shown.**
>
> The production of the owner's duplicate certificate, whenever any voluntary instrument is presented for registration, shall be conclusive authority from the registered owner to the Register of Deeds to enter a new certificate or to make a memorandum of registration in accordance with such instrument, and the new certificate or memorandum shall be binding upon the registered owner and upon all persons claiming under him, in favor of every purchaser for value and in good faith.
>
> In all cases of registration procured by fraud, the owner may pursue all his legal and equitable remedies against the parties to such fraud without prejudice, however, to the rights of any innocent holder for value of a certificate of title. After the entry of the decree of registration on the original petition or application, any subsequent registration procured by the presentation of a forged duplicate certificate of title, or a forged deed or other instrument, shall be null and void. (Emphasis supplied).

[73] See *rollo*, p. 39.

[74] Section 107 of PD 1529 states:

> Section 107. *Surrender of withheld duplicate certificates.* – **Where it is necessary to issue a new certificate of title** pursuant to any involuntary instrument which divests the title of the registered owner against his consent or **where a voluntary instrument cannot be registered by reason of the refusal or failure of the holder to surrender the owner's duplicate certificate of title, the party in interest may file a petition in court to compel surrender of the same to the Register of Deeds.** The court, after hearing, may order the registered owner or any person withholding the duplicate certificate to surrender the same, and direct the entry of a new certificate or memorandum upon such surrender. If the person withholding the duplicate certificate is not amenable to the process of the court, or if not any reason the outstanding owner's duplicate certificate cannot be delivered, the court may order the annulment of the same as well as the issuance of a new certificate of title in lieu thereof. Such new certificate and all duplicates thereof shall contain a memorandum of the annulment of the outstanding duplicate.

of sale in his favor kept on file with the RD-Legazpi.[75] Consequently, petitioners were not in any way negligent as they, in fact, had the right to rely on their owner's duplicate certificate of title and the concomitant protection afforded thereto by the Torrens system, unless a better right, *i.e.*, in favor of an innocent purchaser for value, intervenes.[76] As it turned out, Anduiza mortgaged Lot No. 1320 to Spouses Amurao, particularly Rowena. As a result of Anduiza's default, Rowena foreclosed the mortgage, and consequently, caused the cancellation of TCT No. 42486 and issuance of TCT No. 52392 in her name on July 19, 2001.[77] Spouses Amurao and later, the Co group, in whose favor the subject lot was sold – by virtue of the final judgment of the RTC – were conclusively deemed as innocent purchasers for value. Their status as such had therefore been settled and hence, cannot be revisited, lest this Court deviate from the long-standing principle of immutability of judgments, which states:

> A definitive final judgment, however erroneous, is no longer subject to change or revision.
>
> A decision that has acquired finality becomes immutable and unalterable. This quality of immutability precludes the modification of a final judgment, even if the modification is meant to correct erroneous conclusions of fact and law. And this postulate holds true whether the modification is made by the court that rendered it or by the highest court in the land. The orderly administration of justice requires that, at the risk of occasional errors, the judgments/resolutions of a court must reach a point of finality set by the law. The noble purpose is to write *finis* to dispute once and for all. This is a fundamental principle in our justice system, without which there would be no end to litigations. Utmost respect and adherence to this principle must always be maintained by those who exercise the power of adjudication. Any act, which violates such principle, must immediately be struck down. Indeed, the principle of conclusiveness of prior adjudications is not confined in its operation to the judgments of what are ordinarily known as courts, but extends to all bodies upon which judicial powers had been conferred.[78]

In this regard, the RTC held that the Assurance Fund would be subsidiarily liable to petitioners, should the judgment debt be left unsatisfied from the land or personal property of Anduiza. If the constructive notice rule were to be applied, then petitioners' claim against the Assurance Fund filed on March 18, 2009 would be barred, considering the lapse of more than six (6) years from the registration of Spouses Amurao's title over the subject lot on July 19, 2001. However, as earlier explained, the constructive notice rule holds no application insofar as reckoning the prescriptive period for Assurance Fund cases. Instead, the six (6)-year prescriptive period under Section 102 of PD 1529 should be counted from **January 28, 2008**, or the date when petitioners discovered the anomalous transactions over their property, which included the registration of Rowena's title over the same.

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[75] See Certification dated January 28, 2008 issued by the RD-Legazpi; *rollo*, p. 106.
[76] See the last paragraph of Section 53 of PD 1529.
[77] See *rollo*, p. 142.
[78] *Mocorro, Jr. v. Ramirez*, 582 Phil. 357, 366-367 (2008).

Thus, when they filed their complaint on **March 18, 2009**, petitioners' claim against the Assurance Fund has not yet prescribed. Accordingly, the CA erred in ruling otherwise.

To recount, the CA held that prescription under Section 102 of PD 1529 runs from the time of the registration of the title in favor of the person who caused the fraud, *i.e.*, the usurper.[79] As basis, the CA relied on the case of *Guaranteed Homes, Inc. v. Heirs of Valdez* (*Guaranteed Homes, Inc.*),[80] wherein the Court made the following statement:

> Lastly, respondents' claim against the Assurance Fund also cannot prosper. Section 101 of P.D. No. 1529 clearly provides that the Assurance Fund shall not be liable for any loss, damage or deprivation of any right or interest in land which may have been caused by a breach of trust, whether express, implied or constructive. **Even assuming *arguendo* that they are entitled to claim against the Assurance Fund, the respondents' claim has already prescribed since any action for compensation against the Assurance Fund must be brought within a period of six (6) years from the time the right to bring such action first occurred, which in this case was in 1967.**[81] (Emphasis supplied)

After a careful perusal of the *Guaranteed Homes, Inc.* case in its entirety, the Court herein discerns that the foregoing pronouncement on prescription was mere *obiter dicta*, and hence, non-binding.[82] Actually, the issue for resolution in that case revolved only around petitioner Guaranteed Homes, Inc.'s motion to dismiss Pablo Pascua's (respondent's predecessor) complaint for reconveyance on the ground of failure to state a cause of action. Ultimately, the Court held that respondent's complaint failed to state a cause of action for the reasons that: (*a*) the complaint does not allege any defect in the TCT assailed therein; (*b*) the transfer document relied upon by Guaranteed Homes, Inc. (*i.e.*, the Extrajudicial Settlement of a Sole Heir and Confirmation of Sales) was registered and had an operative effect; and (*c*) respondent cannot make a case for quieting of title since their title was cancelled, but added, *as an aside*, that the claim against the Assurance Fund would be improper "since the Assurance Fund shall not be liable for any loss, damage or deprivation of any right or interest in land which may have been caused by a breach of trust, whether express, implied or constructive", and moreover, "[e]ven assuming *arguendo* that they are entitled to claim against the Assurance Fund, the respondents' claim has already

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79 See *rollo*, pp. 47-48.

80 597 Phil. 437 (2009).

81 Id. at 451.

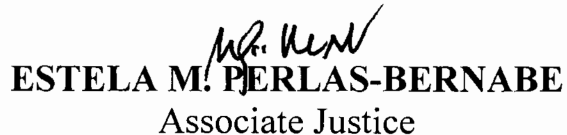
82 "An *obiter dictum* has been defined as an opinion expressed by a court upon some question of law that is not necessary in the determination of the case before the court. It is a remark made, or opinion expressed, by a judge, in his decision upon a cause by the way, that is, incidentally or collaterally, and not directly upon the question before him, or upon a point not necessarily involved in the determination of the cause, or introduced by way of illustration, or analogy or argument. It does not embody the resolution or determination of the court, and is made without argument, or full consideration of the point. It lacks the force of an adjudication, being a mere expression of an opinion with no binding force for purposes of *res judicata*." (*Land Bank of the Philippines v. Suntay*, 678 Phil. 879, 913-914 [2011]; citations omitted.)

prescribed."[83] Thus, as it was not a pronouncement that was made in relation to the actual issues involved, the quoted excerpt by the CA from *Guaranteed Homes, Inc.* is not binding jurisprudence and hence, would not necessarily apply to this case.

In any event, the reckoning of the six (6)-year period from the time a certificate of title was issued in favor of the usurper is incorrect doctrine.[84] At the risk of belaboring the point, the registration of the property in the name of an innocent purchaser for value is integral in every action against the Assurance Fund on the ground of "fraudulent registration under the Torrens system after the land's original registration." This is because it is only at that moment when the claimant suffers loss, damage or deprivation of land caused by the operation of the Torrens system of registration, for which the State may be made accountable. To follow the CA's ruling based on the *obiter dictum* in *Guaranteed Homes, Inc.* is to recognize that the right of action against the Assurance Fund arises already at the point when the usurper fraudulently registers his title. By legal attribution, this latter act is a breach of an implied trust, which, however, by express provision of Section 101 of PD 1529, does not render the Assurance Fund liable. Thus, the CA committed reversible error in ruling that the prescriptive period under Section 102 of PD1529 for filing a claim against the Assurance Fund should be reckoned from the registration of the usurper's title. On the contrary, the period should be reckoned from the moment the innocent purchaser for value registers his or her title *and* upon actual knowledge thereof of the original title holder/claimant. In this light, the claim has yet to prescribe.

WHEREFORE, the petition is **GRANTED**. The Decision dated March 16, 2016 and the Resolution dated May 19, 2016 of the Court of Appeals in CA-G.R. CV No. 104207 are hereby **REVERSED** and **SET ASIDE**. The Decision dated August 19, 2013 and the Order dated April 30, 2014 of the Regional Trial Court of Legazpi City, Albay, Branch 2 (RTC), are hereby **REINSTATED** *in toto*. Accordingly, the RTC is hereby **DIRECTED** to conduct execution proceedings with reasonable dispatch.

SO ORDERED.



ESTELA M. PERLAS-BERNABE
Associate Justice

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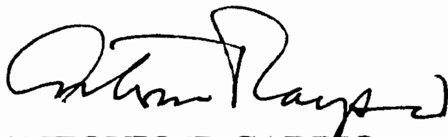
[83] *Guaranteed Homes, Inc. v. Heirs of Valdez*, supra note 80, at 446-451.

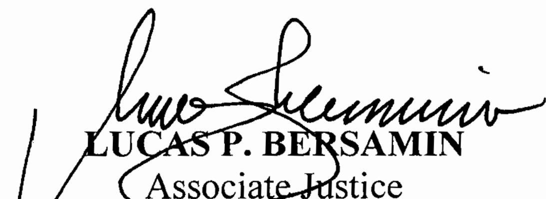
[84] See also *Sesuya v. Lacopia* (54 Phil. 534 [1930]) and *Heirs of Enriquez v. Enriquez* (44 Phil. 885 [1922]) where a similar reckoning point of the six (6)-year prescriptive period as that in *Guaranteed Homes, Inc.* had been apparently applied by the Court.

WE CONCUR:



ANTONIO T. CARPIO
Senior Associate Justice

PRESBITERO J. VELASCO, JR.
Associate Justice

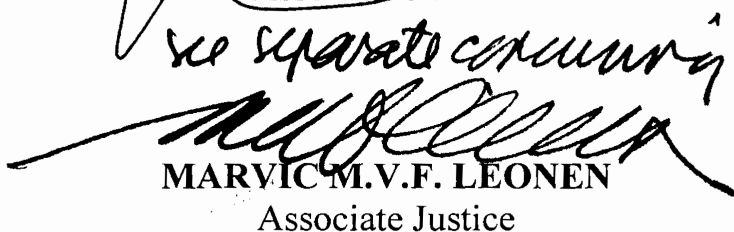


TERESITA J. LEONARDO-DE CASTRO
Associate Justice

NO PART
DIOSDADO M. PERALTA
Associate Justice

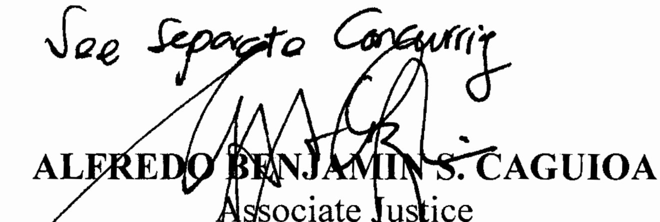
LUCAS P. BERSAMIN
Associate Justice

MARIANO C. DEL CASTILLO
Associate Justice



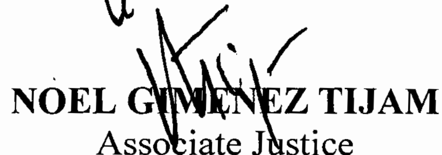
MARVIC M.V.F. LEONEN
Associate Justice

NO PART
FRANCIS H. JARDELEZA
Associate Justice



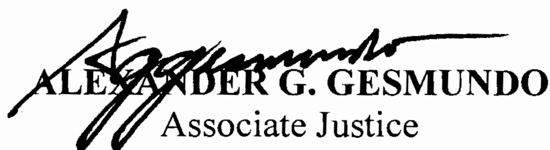
ALFREDO BENJAMIN S. CAGUIOA
Associate Justice

SAMUEL R. MARTIRES
Associate Justice



NOEL GIMENEZ TIJAM
Associate Justice

ANDRES B. REYES, JR.
Associate Justice



ALEXANDER G. GESMUNDO
Associate Justice

CERTIFICATION

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.

ANTONIO T. CARPIO
Senior Associate Justice
(Per Section 12, Republic Act No. 296,
The Judiciary Act of 1948, As Amended)