



Republic of the Philippines
Supreme Court
Bacolod City

SUPREME COURT OF THE PHILIPPINES
PUBLIC INFORMATION OFFICE
RECORDED
APR 05 2023
BY: _____
TIME: _____

EN BANC

**FLORENCIA H. DUENAS* and
DAPHNE DUENAS-
MONTEFALCON,**

Petitioners,

- versus -

**METROPOLITAN BANK AND
TRUST COMPANY and ELVIRA
ONG CHAN; AF REALTY DE-
VELOPMENT, INC. and
ZENAIDA R. RANULLO; ADE-
LAIDA T. BERNAL; and INO-
CENCIO DOMINGO and PE-
NELOPE ISON OF THE REGIS-
TER OF DEEDS OF MAKATI
CITY,**

Respondents.

G.R. No. 209463

Present:

**GESMUNDO, C.J.,
LEONEN,
CAGUIOA,
HERNANDO,
LAZARO-JAVIER,
INTING,
ZALAMEDA,
LOPEZ, M. V.,
GAERLAN,
ROSARIO,
LOPEZ, J. Y.,
DIMAAMPAO,**
MARQUEZ,**
KHO, JR., and
SINGH, JJ.**

Promulgated:

November 29, 2022

X ----- X

DECISION

HERNANDO, J.:

Purchasers of registered land may seek sanctuary under the protection accorded to innocent purchasers in good faith and for value provided they steadfastly remain in good faith until they have dutifully registered the conveyance. It is only upon registration in good faith can the purchaser acquire such rights and interest as they appear in the certificate of title, unaffected by

* Dueñas in some parts of the records.
** On official leave.
*** On official business.

any prior lien or encumbrance not noted therein, and if need be, invoke their right to rely on the Torrens title as against any claims to his or her interest.

Challenged in this petition¹ is the March 15, 2013 Decision² and October 8, 2013 Resolution³ of the Court of Appeals (CA) in CA-G.R. CV No. 77595, which affirmed *in toto* the January 15, 2002 Decision⁴ and the April 23, 2002 Order⁵ of the Regional Trial Court (RTC) of Makati City, Branch 60, in Civil Case No. 94-751.

The Antecedents

The subject three parcels of land, located in Buendia Avenue, corner Dian St., Makati City with an area of 1,411 square meters, were registered in the name of Dolores Egido Vda. De Sola (Dolores) under Transfer Certificates of Title (TCT) Nos. T-79864, T-79865, and T-79866.⁶ On May 22, 1978, TCT Nos. T-79864, T-79865, and T-79866 were cancelled, and in lieu thereof, TCT Nos. S-68301, S-68302, and S-68303⁷ were issued in the name of Bellever Brothers, Inc. (BBI). Later, BBI contracted a loan in the total amount of ₱2,500,00.00 from Manotoc Securities Inc. (MSI), and mortgaged the subject three lots as per Deed of Mortgage dated May 19, 1978.⁸ The said mortgage was annotated as Entry No. 83066 on TCT Nos. S-68301, S-68302, and S-68303.¹²⁰

On June 12, 1978, Dolores filed a complaint,¹⁰ docketed as Civil Case No. 29782, before the Court of First Instance (CFI) of Pasig, Branch 19, against BBI and MSI to rescind and/or declare the nullity of the sale of the subject three lots, and to cancel BBI's titles over them.¹¹

On June 13, 1978, Dolores caused the annotation of a Notice of *Lis Pendens*¹² on TCT Nos. S-68301, S-68302, and S-68303 under Entry No. 84647 dated June 12, 1978.¹³ During the pendency of Civil Case No. 29782, Dolores died and was substituted by her daughter, Carmen Egido (Carmen).

On September 18, 1981, a writ of preliminary injunction¹⁴ dated May 23, 1979 issued by CFI Pasig, Branch 19 was also annotated under Entry No. 47764 on TCT Nos. S-68301, S-68302, and S-68303.¹⁵

¹ *Rollo*, Vol. I, pp. 3-52.

² *Id.* at 53-69. Penned by Associate Justice Danton Q. Bueser and concurred in by Associate Justices Amelita G. Tolentino and Ramon R. Garcia.

³ *Id.* at 71-72.

⁴ *Records*, Vol. VI, pp. 2217- 2236. Penned by Judge Marissa Macaraig Guillen.

⁵ *Id.* at 2303-2304.

⁶ Plaintiff's Folder of Exhibits, Exhibit G-I, unpaginated.

⁷ *Id.*

⁸ *Records*, Vol. VI, pp. 1826-1839.

⁹ *Rollo*, Vol. 1, p. 360.

¹⁰ *Id.*

¹¹ *Id.*

¹² *Id.*

¹³ Plaintiff's Folder of Exhibits, Exhibit G-I, unpaginated.

¹⁴ *Rollo*, Vol. 1, p. 360.

¹⁵ *Id.*

On July 19, 1989, Civil Case No. 29782 was temporarily archived by CFI, Branch 19 of Pasig, (now RTC, Branch 158 of Pasig).¹⁶ Then, Carmen authorized petitioner Florencia H. Duenas (Florencia) to enter into a settlement of Civil Case No. 29782 which involved the subject three lots.¹⁷ On August 6, 1991, Carmen assigned all her rights over the subject three lots in favor of Florencia.¹⁸

Meanwhile, MSI was dissolved and placed under receivership or liquidation pursuant to Securities and Exchange Commission (SEC) *En Banc* Order dated March 18, 1988 in SEC-EB No. 033.¹⁹ Thereafter, Florencia submitted before the SEC a Letter Proposal for Amicable Settlement of Civil Case No. 29782²⁰ involving the subject three lots.²¹ While Florencia and MSI's receiver or liquidator were in the process of negotiating a compromise agreement with regard to the subject three lots, they discovered that TCT Nos. S-68303, S-68301, and S-68302 in the name of BBI were cancelled by Mila O. Flores (Flores) of the Register of Deeds, Makati City.²²

Adelaida Bernal (Bernal), acting as alleged representative of MSI, executed an Affidavit of Loss²³ of TCT Nos. S-68301, S-68302, and S-68303, and filed a petition²⁴ for the issuance of a new owner's duplicate copy of the said titles before the RTC, Branch 135 of Makati City which was docketed as LRC Case No. M-2490. On March 12, 1992, the RTC Branch 135 of Makati City issued an Order²⁵ for the Register of Deeds, Makati City to immediately issue an owner's duplicate copy of TCT Nos. S-68301, S-68302, and S-68303 in lieu of the lost titles.

Thereafter, Bernal and BBI presented a falsified Decision²⁶ dated December 18, 1985 allegedly issued by CFI Branch 19 of Pasig in Civil Case No. 29782, and an Absolute Deed of Sale dated December 18, 1985²⁷ to cancel Entry Nos. 83066, 84647, and 47764 annotated on TCT Nos. S-68301, S-68302, and S-68303, and to subsequently cause the issuance of the new titles, *i.e.*, TCT Nos. 178934, 178935, and 178936²⁸ on March 19, 1992 in the name of Bernal.²⁹

However, the spouses Daniel and Florencia Duenas (spouses Duenas)

¹⁶ Records, Vol. I, p. 29.

¹⁷ *Id.* at 30-31, records, Vol. VI, pp. 1826-1839; Plaintiff's Folder of Exhibits, Exhibit C, unpaginated.

¹⁸ Records, Vol. I, pp. 34-35; Plaintiff's Folder of Exhibits, Exhibit D, unpaginated.

¹⁹ Records, Vol. III, pp. 714-718; records, Vol. VI, pp. 1811-1815.

²⁰ Plaintiff's Folder of Exhibits, Exhibit L, unpaginated.

²¹ Records, Vol. III, p. 987.

²² Plaintiff's Folder of Exhibits, Exhibits G-I, unpaginated.

²³ *Rollo*, Vol. I, p. 361.

²⁴ *Id.*

²⁵ Plaintiff's Folder of Exhibits, Exhibit J, unpaginated.

²⁶ Records, Vol. I, pp. 46-48; Plaintiff's Folder of Exhibits, Exhibit L, unpaginated.

²⁷ *Id.* at 49-50; Plaintiff's Folder of Exhibits, Exhibit K, unpaginated.

²⁸ Respondent's Folder of Exhibits, Exhibits 3-5, unpaginated; Plaintiff's Folder of Exhibits, Exhibits P-R, unpaginated.

²⁹ *Rollo*, Vol. I, p. 361.

averred that based on the Certification dated September 1, 1992³⁰ issued by the Clerk of Court of RTC of Pasig, Branch 158, the CFI of Pasig, Branch 19 did not render any decision on December 18, 1985 in Civil Case No. 29782; instead the said case was archived as per Order dated July 19, 1989. **Thus, to protect their right over the subject three lots, the spouses Duenas caused the annotation of their Affidavit of Adverse Claim³¹ dated August 31, 1992 under Entry No. 48918 on September 2, 1992 on TCT Nos. 178934, 178935, and 178936.**

In addition, the spouses Duenas filed a Complaint,³² docketed as Civil Case No. 92-2831, before the RTC of Makati City, Branch 61 to declare the nullity of TCT Nos. 178934, 178935, and 178936, and the Absolute Deed of Sale dated December 18, 1985; and to pray for damages against Bernal, BBI, Jesse P. Beato, BBI's corporate secretary, and Flores.³³

Thereafter, **Notices of *Lis Pendens*³⁴ under Entry No. 50908 dated October 1, 1992** were annotated on TCT Nos. 178934, 178935, and 178936 which were, however, cancelled as per RTC of Makati City, Branch 61's Orders dated January 25, 1993³⁵ and February 24, 1993.³⁶ Thus, the spouses Duenas assailed the said cancellation through a petition for *certiorari* under Rule 65 to the CA docketed as CA G.R.-SP No. 30354.³⁷

On March 11, 1993, the CA issued a Resolution³⁸ temporarily enjoining the implementation of the RTC of Makati City, Branch 61's January 25, 1993 and February 24, 1993 Orders. The said CA's Resolution dated March 11, 1993 was received by RTC of Makati City Branch 61 on March 12, 1993.³⁹ Then, on October 29, 1993, the CA in CA G.R.-SP No. 30354 ultimately ruled in favor of the spouses Duenas and set aside the ruling of RTC of Makati City, Branch 61's January 25, 1993 and February 24, 1993 Orders in Civil Case No. 92-2831.⁴⁰ On November 29, 1993, the CA's October 29, 1993 Decision⁴¹ in CA G.R.-SP No. 30354 has become final and executory.

However, despite the CA's favorable ruling and temporary restraining order in CA G.R.-SP No. 30354, the spouses Duenas alleged that on March 12, 1993, the RTC of Makati City, Branch 61 issued a Certificate of Finality⁴² of its January 25, 1993 Order to cancel the Notice of *Lis Pendens* under Entry No. 50908 dated October 1, 1992. Consequently, Penelope Ison (Ison) of the

³⁰ Records, Vol. 1, p. 55; Plaintiff's Folder of Exhibits, Exhibit N, unpaginated.

³¹ Id. at 56-58; Plaintiff's Folder of Exhibits, Exhibit O, unpaginated.

³² *Rollo*, Vol. I, p. 361.

³³ Records, Vol. 1, pp. 59-69.

³⁴ Id. at 71-72; Plaintiff's Folder of Exhibits, Exhibit S, unpaginated.

³⁵ Id. at 73-74; Plaintiff's Folder of Exhibits, Exhibit BB, unpaginated.

³⁶ Id. at 75; Plaintiff's Folder of Exhibits, Exhibit CC, unpaginated.

³⁷ Plaintiff's Folder of Exhibits, Exhibit DD, unpaginated.

³⁸ Plaintiff's Folder of Exhibits, Exhibits LL, GG-1, unpaginated.

³⁹ Plaintiff's Folder of Exhibits, Exhibit GG-1, unpaginated.

⁴⁰ Records, Vol. I, pp. 117-124; Plaintiff's Folder of Exhibits, Exhibit NN, unpaginated.

⁴¹ Plaintiff's Folder of Exhibits, Exhibit OO, unpaginated.

⁴² Plaintiff's Folder of Exhibits, Exhibit MM, unpaginated.

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Register of Deeds, Makati City cancelled the said annotation on TCT Nos. 178934, 178935, and 178936.⁴³

Meanwhile, Bernal executed an Absolute Deed of Sale⁴⁴ dated April 23, 1993 in favor of respondent AF Realty Development, Inc. (AFRDI). Consequently, Inocencio M. Domingo (Domingo) of the Register of Deeds of Makati cancelled the Affidavit of Adverse Claim dated August 31, 1992, and TCT Nos. 178934, 178935, and 178936; and thereafter issued TCT Nos. 185022, 185023, and 185024⁴⁵ in the name of AFRDI on April 28, 1993.

Thus, on February 22, 1994, the spouses Duenas filed the herein Complaint⁴⁶ before the RTC of Makati City, Branch 60, docketed as Civil Case No. 94-751, to declare the nullity of TCT Nos. 185022, 185023, and 185024, and the Absolute Deed of Sale dated April 12, 1993; and to demand damages from Bernal, AFRDI, Ison, and Domingo. **On February 23, 1994, the spouses Duenas caused the annotation of a Notice of *Lis Pendens* under Entry No. 81678 on TCT Nos. 185022, 185023, and 185024 in the name of AFRDI.**⁴⁷ Thereafter, on April 4, 1994, the spouses Duenas filed an Amended Complaint⁴⁸ in Civil Case No. 94-751.

However, on **January 31, 1994**, AFRDI sold the subject three lots covered by TCT Nos. 185022, 185023, and 185024 to respondent Metropolitan Bank & Trust Co. (MBTC) by virtue of an Absolute Deed of Sale dated January 31, 1994.⁴⁹ The spouses Duenas discovered the said sale transaction of the subject three lots between AFRDI and MBTC on June 8, 1994.⁵⁰

Hence, on June 13, 1994, the spouses Duenas filed a Second Amended Complaint⁵¹ before the RTC of Makati City, Branch 60 to implead Zenaida R. Ranullo (Ranullo) of AFRDI, MBTC, and Elvira Ong Chan (Chan), then Executive Vice-President of MBTC, as defendants in Civil Case No. 94-751.

On June 15, 1994, TCT Nos. 195231, 195232, and 195233⁵² were issued in the name of MBTC.

On their part, respondents MBTC and Chan countered that the bank is a purchaser in good faith and for value as the titles of the subject three lots, *i.e.* TCT Nos. 185022, 185023, and 185024 in the name of AFRDI, did not show any lien or encumbrance **at the time of sale on January 31, 1994. In addition,**

⁴³ *Rollo*, Vol. I, pp. 361, 363.

⁴⁴ Records, Vol. I, pp. 125-126; Respondent's Folder of Exhibits, Exhibit 6, unpaginated.

⁴⁵ Plaintiff's Folder of Exhibits, Exhibits FF-HH, unpaginated.

⁴⁶ *Rollo*, Vol. I, p. 8.

⁴⁷ Plaintiff's Folder of Exhibits, Exhibits FF-HH, unpaginated.

⁴⁸ Records, Vol. I, pp. 137-149.

⁴⁹ Records, Vol. II, pp. 446-448; Respondent MBTC's Folder of Exhibits, Exhibit 5; and Respondent AFRDI's Folder of Exhibits, Exhibit 11, unpaginated.

⁵⁰ *Id.* at 324-325.

⁵¹ *Id.* at 314-331.

⁵² Records, Vol. VI, pp. 2286-2294; Plaintiff's Folder of Exhibits, Exhibit II-KK, unpaginated.

they averred that the Notice of *Lis Pendens* was annotated only on February 23, 1994. Hence, the bank had every right to rely on the said titles and was not obliged to go beyond them to determine if there was any irregularity in their issuance.⁵³

In its crossclaim against AFRDI, respondent MBTC demanded that in the event that its titles over the subject three lots are cancelled, AFRDI should be made to return the payment for the sale of the subject three lots, *i.e.*, PHP 39,508,000.00 plus legal interest, and to reimburse whatever amount MBTC and/or Chan may be required to pay petitioners.⁵⁴

On the other hand, respondents AFRDI and Ranullo claimed that they acted in good faith when AFRDI bought the subject three lots from Bernal. They argued that at the time of the execution of the absolute deed of sale dated April 23, 1993, the Notice of *Lis Pendens* under Entry No. 50908 dated October 1, 1992 was already cancelled pursuant to the January 25, 1993 Order of the RTC of Makati City, Branch 61.⁵⁵

Hence, the Register of Deeds of Makati City properly issued TCT Nos. 180522, 180523, and 180524 in AFRDI's favor. In addition, AFRDI and Ranullo insisted that the spouses Duenas' recourse is not to go against MBTC and/or Chan but to recover from the Assurance Fund under Section 95 of Presidential Decree No. (PD) 1529.⁵⁶

MSI intervened and alleged that it is the mortgagee of the subject three lots who later acquired ownership thereof by virtue of a *dacion en pago* with full, final, and complete acquittance of obligations dated July 23, 1980 executed by BBI due to the latter's inability to pay its loan.⁵⁷ MSI reiterated the spouses Duenas' allegations of fraud and illegal cancellation of TCT Nos. S-68301, S-68302, and S-68303 through a falsified CFI of Pasig, Branch 19's Decision dated December 18, 1985 in Civil Case No. 29782, and Absolute Deed of Sale dated December 18, 1985 presented by Bernal before the Register of Deeds of Makati City to cause the issuance of TCT Nos. 178934, 178935, and 178936 in the name of Bernal.⁵⁸

Lastly, Ison and Domingo averred that they acted in accordance with law and in utmost good faith when they cancelled the Notice of *Lis Pendens* under Entry No. 50908 dated October 1, 1992 on TCT Nos. 178934, 178935, and 178936 in the name of Bernal, and issued TCT Nos. 185022, 185023, and 185024 in the name of AFRDI. They further claimed that they had no participation whatsoever in the transactions involving the spouses Duenas and

⁵³ Records, Vol. II, pp. 506-516.

⁵⁴ *Id.* at 508-509.

⁵⁵ *Rollo*, Vol. I, p. 364.

⁵⁶ Records, Vol. II at 571-574 and 580-591.

⁵⁷ Records, Vol. III, pp. 719-724; records, Vol. VI, pp. 1819-1825.

⁵⁸ Records, Vol. III, pp. 725-738.

the defendants in Civil Case No. 94-751. Ison and Domingo argued that the functions of the Register of Deeds are purely ministerial. Thus, they are duty-bound to register the document, which is regular on its face, and have no authority to determine the validity thereof if presented for registration. Hence, they should not be held liable for damages of any kind to the spouses Duenas.⁵⁹

On June 5, 1995, the SEC *En Banc* issued an Order⁶⁰ in SEC-EB No. 033, which states that 60% of the subject three lots should pertain to the Egido family, now owned by the spouses Duenas, and 40% to MSI. The said Order reads:

After having studied the records of Civil Case No. 29782, Dolores F. Vda. de Egido, et al. vs. Manotoc Securities, Inc., et al., before the RTC of Pasig and having heard the parties on March 20, 1995, this Commission rules and so holds that the 60-40 percent distributions is equitable for both parties. It shall be understood, however, that 60% will go to the Egido family while the remaining 40%, to MSI and that the 40% will be taken from the corner lot.

SO ORDERED.⁶¹

On June 19, 1995, the RTC of Makati City, Branch 61 rendered its Decision⁶² in Civil Case No. 92-2831 in favor of the spouses Duenas, and declared TCT Nos. 178934, 178935, and 178936 in the name of Bernal as null and void. It further reinstated TCT Nos. S-68301, S-68302, and S-68303 in the name of BBI, as well as the corresponding entries therein. The *fallo* of the Decision reads:

WHEREFORE, premises above-considered and plaintiffs' claim having been duly proven by evidence, judgment is hereby rendered in favor of plaintiff and as against defendant BERNAL by declaring TCT Nos. 178934, 178935 and 178936 of the Register of Deeds of Makati, M.M., in the name of defendant Adelaida Bernal as null and void *ab initio* and the cancelled TCT Nos. S-68301, S-68302 and S-68303 in the name of Bellever Brothers, Inc. of the Register of Deeds of Makati, M.M., together with the Entries therein numbered 83066, 84647 and 47764 are hereby ordered revived and reinstated.

Further, defendant BERNAL is hereby ordered to pay:

- 1) Plaintiffs the sum of ₱500,000.00 as and by way of moral damages;
- 2) The sum of ₱300,000.00 as exemplary damages;
- 3) The sum of ₱200,000.00 as and by way of attorney's fees; and to
- 4) Pay the cost of suit.

SO ORDERED.⁶³

⁵⁹ Records, Vol. II, pp. 306-311; 492-497.

⁶⁰ Records, Vol. III, p. 989.

⁶¹ Id.; Plaintiff's Folder of Exhibits, Exhibit PP, unpaginated.

⁶² Records, Vol. III, pp. 986-988.

⁶³ Id. at 988; Plaintiff's Folder of Exhibits, Exhibit PP, unpaginated.

On September 22, 1995, the RTC of Pasig, Branch 158 (formerly CFI of Pasig, Branch 19) rendered its Decision⁶⁴ in Civil Case No. 29782 approving Florencia and MSI's compromise agreement dated August 30, 1995, pursuant to the share distribution or partition of the subject three lots embodied in SEC *En Banc*'s Order dated June 5, 1995 in SEC-EB No. 033, *i.e.*, 60% to Florencia and 40% to MSI.

The dispositive portion of the RTC of Pasig, Branch 158's Decision reads:

The foregoing Compromise Agreement, not being contrary to law, moral or public policy, is approved and judgment is hereby rendered in accordance with the terms and conditions set forth in the Compromise Agreement and the parties are enjoined to strictly comply therewith.

SO ORDERED.⁶⁵

On September 30, 1996, the RTC of Makati City, Branch 60 in Civil Case No. 94-751 issued an Order⁶⁶ partially granting the spouses Duenas' application for a writ of preliminary mandatory injunction restraining MBTC from alienating, disposing, selling, mortgaging, assigning, leasing, or entering into any kind of contract involving the subject three lots covered by TCT Nos. 195231, 195232, and 195233 in the name of MBTC.

Subsequently, on November 28, 1996, the RTC of Makati City, Branch 61 issued a Writ of Preliminary Injunction⁶⁷ in Civil Case No. 94-751 restraining: (a) the MBTC from alienating, disposing, selling, mortgaging, assigning, leasing or entering into any kind of contract, involving the lots covered by TCT Nos. 195231, 195232, and 195233 of the Registry of Deeds, Makati City; and (b) the Register of Deeds, Makati City from registering and annotating on the TCT Nos. 195231, 195232, and 195233 any document executed by or for MBTC involving the aforesaid certificates of title.

**Ruling of the Regional Trial
Court, Branch 60 of Makati City
(Civil Case No. 94-751)**

On January 15, 2002, the RTC of Makati City, Branch 60 rendered its Decision⁶⁸ in Civil Case No. 94-751 in favor of the spouses Duenas and MSI. The *fallo* of the RTC of Makati City, Branch 60 Decision reads:

[WHEREFORE], in view of all the foregoing, judgment is hereby rendered ordering defendants Adelaida T. Bernal and AF Realty to indemnify plaintiff and

⁶⁴ Records, Vol. IV, pp. 1265-1272; Plaintiff's Folder of Exhibits, Exhibit RR, unpaginated.

⁶⁵ Id. at 1272.

⁶⁶ Id. at 1326-1332.

⁶⁷ Records, Vol. V, pp. 1354-1355.

⁶⁸ Records, Vol. VI, p. 2236.

plaintiff-Intervenor in the amount of Php39,308,000.00 representing the amount paid by defendant Metrobank for the subject lots in question, with plaintiff-Intervenor entitled to the extent of 40% of the said amount. Apart from this, said defendants are also directed to pay attorney's fees in the amount of P100,000.00 in favor of plaintiff and plaintiff Intervenor[.]

In addition to this public defendants, Inocencio C. Domingo and Penelope Ison, by reason of their negligent acts and wrongful omissions are held jointly and solidarily liable with defendants Bernal and AF Realty to pay in favor of plaintiff the amount of Php100,000.00 as and by way of moral damages.

SO ORDERED.⁶⁹

The RTC of Makati City, Branch 60 found that Bernal perpetuated a fraudulent scheme that unlawfully deprived the spouses Duenas and MSI of their ownership and beneficial interest in the subject three lots. However, the ownership and titles of the subject three lots have already passed into the hands of MBTC that bought the subject three lots free from any liens and encumbrances. Thus, the spouses Duenas and MSI's proper recourse is to go against the parties who committed the fraud, and, who by their negligence, allowed the title to go into the hands of innocent purchasers as per Section 55 of Act No. 496⁷⁰ now Sec. 53 of PD 1529.⁷¹

With respect to Ison and Domingo, the RTC of Makati City Branch 60 held that they did not exercise due diligence in the performance of their duties, and that by reason of their gross negligence, they facilitated the transfer of the titles of the subject three lots to an innocent purchaser despite the pendency of Civil Case No. 92-2831 before the RTC of Makati City, Branch 61. Ison and Domingo's reliance on the Certificate of Finality dated March 12, 1993 that did not categorically state that Civil Case No. 92-2831 was terminated, constituted gross negligence in the performance of their duties. Besides, the Certificate of Finality was issued only four days from the issuance of an order which means it had not yet attained finality.⁷²

The spouses Duenas and MSI moved for the reconsideration⁷³ of the RTC of Makati City, Branch 60's January 15, 2002 Decision, insisting that the RTC of Makati City, Branch 60 erred in not finding MBTC in bad faith, and in not ordering the revival and reinstatement of TCT Nos. S-68301, S-68302, and S-68303 and the corresponding entries therein. They likewise assailed the amount of damages awarded.

⁶⁹ Id. at 2217-2236; Plaintiff's Folder of Exhibits, Exhibit RR, unpaginated.

⁷⁰ Entitled "AN ACT TO PROVIDE FOR THE ADJUDICATION AND REGISTRATION OF TITLES TO LANDS IN THE PHILIPPINE ISLANDS or The Land Registration Act." Enacted: November 6, 1902.

⁷¹ *Rollo*, Vol. I, pp. 381-386; Presidential Decree No. 1529 entitled "AMENDING AND CODIFYING THE LAWS RELATIVE TO REGISTRATION OF PROPERTY AND FOR OTHER PURPOSES." Approved: June 11, 1978.

⁷² Id.

⁷³ Id.

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On April 23, 2002, the RTC of Makati City, Branch 60 issued an Order⁷⁴ partially granting the spouses Duenas and MSI's motions for reconsideration, thus:

WHEREFORE, both Motions are partially GRANTED in so far as they refer to the foregoing. Accordingly, the Decision of 15 January 2002 is MODIFIED and the dispositive portion shall hereafter read as follows:

Wherefore in view of the foregoing judgment is hereby rendered ordering defendants Adelaida T. Bernal and AF Realty to indemnify plaintiff and plaintiff-intervenor the amount of Php 39,308,000.00 representing the amount paid by the defendant Metrobank for the subject lots in question, with plaintiff-intervenor entitled to the extent of 40% of the said amount. Apart from this, said defendants are also directed to pay attorney's fees in the amount of Php300,000.00 in favor of plaintiff and plaintiff-intervenor.

In addition to this, public defendants, Inocencio C. Domingo and Penelope Ison, by reason of their negligent acts and wrongful omissions are held jointly and solidarily liable with defendants Bernal and AF Realty to pay in favor of plaintiff the amount of Php 200,000.00 as and by way of moral damages.

SO ORDERED.⁷⁵

Hence, the spouses Duenas,⁷⁶ MSI,⁷⁷ and AFRDI⁷⁸ filed an appeal before the CA.

Ruling of the Court of Appeals

In its May 15, 2013 Decision,⁷⁹ the CA affirmed *in toto* the January 15, 2002 Decision and the April 23, 2002 Order of the RTC of Makati City, Branch 60, to wit:

WHEREFORE, premises considered, the decision rendered by the Regional Trial Court, Branch 60 of Makati City is hereby **AFFIRMED** in **TOTO**.

SO ORDERED.⁸⁰

The CA found MBTC to be a purchaser in good faith. It ruled that even a forged or fraudulent document may become the root of a valid title, if the property has already been transferred from the name of the owner to that of the forger. Thus, a person who deals with a registered property in good faith will

⁷⁴ Id

⁷⁵ Id. at 2304

⁷⁶ *Rollo*, Vol. I, pp. 62-63

⁷⁷ *Rollo*, Vol. II, p. 794.

⁷⁸ *Rollo*, Vol. I, pp. 17-18.

⁷⁹ Id. at 53-69.

⁸⁰ Id. at 68.

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acquire a good title from a forger and be absolutely protected by a Torrens title.⁸¹

Furthermore, the CA held that during MBTC and AFRDI's negotiation, and the former's eventual purchase of the subject lots on January 31, 1994, the titles over the three lots were clean. The Register of Deeds even confirmed that the said titles were free from liens and encumbrances. An MBTC's officer also visited the subject lots and saw eight shanties of informal settlers. The CA concluded that MBTC had no knowledge of any circumstance that would engender any doubt on the validity of the seller's title or any defect that would necessitate further investigation or inquiry as to its authenticity.⁸²

The CA noted that MBTC became aware only of the pending cases involving the subject three lots on June 13, 1994 when it received summons. In addition, the Notice of *Lis Pendens* became effective only on February 23, 1994 pursuant to Sec. 52 of PD 1529. When the Notice of *Lis Pendens* was annotated on the titles of the subject lots, the sale between MBTC and AFRDI was already consummated. Hence, the CA ruled that the subsequent annotation of the Notice of *Lis Pendens* cannot defeat MBTC's status as a buyer in good faith and for value.⁸³

Meanwhile, Daniel Duenas died on February 23, 2007⁸⁴ during the pendency of the appeal and was substituted by his heirs, Florencia and Daphne Duenas-Montefalcon (Daphne), the herein petitioners.

Petitioners Florencia and Daphne moved for the reconsideration⁸⁵ of the CA's May 15, 2013 Decision. However, the motion was denied by the CA in its October 8, 2013 Resolution.⁸⁶

Hence, this Petition for Review on *Certiorari* under Rule 45.

Issues

Petitioners presented the following issues for the resolution of this Court:

I. THE COURT OF APPEALS COMMITTED A SERIOUS REVERSIBLE ERROR IN SUSTAINING THE FINDINGS OF THE TRIAL COURT – THAT HEREIN RESPONDENT METROPOLITAN BANK AND TRUST COMPANY WAS IN GOOD FAITH IN ACQUIRING THE SUBJECT REAL ESTATE PROPERTIES IN LITIGATION;

II. THE COURT OF APPEALS AND THE TRIAL COURT COMMITTED A SERIOUS REVERSIBLE ERROR IN NOT DECLARING THE TITLES ISSUED TO RESPONDENT AF REALTY AND

⁸¹ Id. at 64-65.

⁸² Id. at 65-68.

⁸³ Id. at 74.

⁸⁴ Id. at 74.

⁸⁵ Id. at 71.

⁸⁶ Id. at 71-72.

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DEVELOPMENT INC. AND RESPONDENT METROPOLITAN BANK AND TRUST COMPANY AS NULL AND VOID *AB INITIO*;

III. THE COURT OF APPEALS AND THE TRIAL COURT COMMITTED A SERIOUS REVERSIBLE ERROR IN NOT AWARDING ACTUAL DAMAGES IN FAVOR OF HEREIN PETITIONERS FOR THE COMPENSATION OF THE REASONABLE RENTALS FOR THE USE AND OCCUPATION OF THE SUBJECT PREMISES BY RESPONDENT METROPOLITAN BANK AND TRUST COMPANY;

IV. THE COURT OF APPEALS COMMITTED A SERIOUS REVERSIBLE ERROR IN SUSTAINING THE TRIAL COURT'S INADEQUATELY AWARDED MORAL DAMAGES IN FAVOR OF HEREIN PETITIONERS;

V. THE COURT OF APPEALS AND THE TRIAL COURT COMMITTED A SERIOUS REVERSIBLE ERROR IN NOT AWARDING EXEMPLARY DAMAGES IN FAVOR OF HEREIN PETITIONERS; AND

VI. THE COURT OF APPEALS COMMITTED A SERIOUS REVERSIBLE ERROR IN SUSTAINING THE TRIAL COURT'S MEAGERLY AWARDED ATTORNEY'S FEES IN FAVOR OF HEREIN PETITIONERS.⁸⁷

Petitioners' Arguments

Petitioners argue that for a buyer to be considered in good faith, said buyer must be in good faith from the time of acquisition of the property until the registration of the deed of conveyance. In this case, petitioners contend that MBTC, as a banking institution imbued with public interest, cannot merely rely on the face of the certificate of title of a registered land and is duty-bound to undertake due diligence in checking the validity of the titles of the real estate properties.⁸⁸

In addition, petitioners insist that the Notice of Adverse Claim dated September 2, 1992 under Entry No. 48918 annotated on TCT Nos. 178934, 178935, and 178936 in the name of Bernal was **never cancelled** and thus, is considered a notice to the public of petitioners' claim on the subject three lots. Hence, the subsequent acquisition of the subject three lots derived from the fraudulently issued TCT Nos. 178934, 178935, and 178936 in the name of Bernal would render the succeeding buyers thereof in bad faith.⁸⁹

Furthermore, petitioners caused the annotation of a Notice of *Lis Pendens* dated October 1, 1992 on TCT Nos. 178934, 178935, and 178936 that again notified the public of the pending litigation, *i.e.*, Civil Case No. 92-2831, involving the subject three lots. Petitioners maintain that this Notice of *Lis*

⁸⁷ Id. at 19-20.

⁸⁸ Id. at 21-22.

⁸⁹ Id. at 23.

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Pendens dated October 1, 1992 was **never cancelled** and is deemed automatically carried over to the subsequently issued titles in favor AFRDI, *i.e.*, TCT Nos. 185022, 185023, and 185024. The Register of Deeds is duty bound to carry over the Notice of *Lis Pendens* on all subsequently issued titles. However, petitioners argue that the Register of Deeds, Makati City unreasonably and intentionally failed to perform its lawful duty and effectively omitted to carry over the Notice of *Lis Pendens* on the newly issued titles in favor of AFRDI.⁹⁰

Moreover, the Notice of *Lis Pendens* dated February 23, 1994 under Entry No. 81178 annotated on TCT Nos. 185022, 185023, and 185024 in the name of AFRDI served as a notice to the public of a pending litigation, *i.e.* Civil Case No. 94-751, involving the subject three lots. Petitioners contend that although AFRDI and MBTC executed a Deed of Absolute Sale on January 31, 1994, it was not registered or annotated on TCT Nos. 185022, 185023, and 185024.⁹¹

Thus, MBTC's failure to register the deed of absolute sale and the eventual issuance of TCT Nos. 195231, 195232, and 195233 in the name of MBTC despite the Notice of *Lis Pendens* dated February 23, 1994 rendered MBTC a buyer in bad faith. MBTC cannot validly insist that it is a buyer in good faith because there was a Notice of *Lis Pendens* dated February 23, 1994 duly annotated on TCT Nos. 185022, 185023, and 185024 prior to its registration of the Absolute Deed of Sale dated January 31, 1994 on June 15, 1994. Petitioners insist that the registration of the sale transaction is the determining factor which governs the status of a buyer, whether the latter is in good faith or bad faith.⁹²

Petitioners also argue that MBTC's failure to immediately register the Absolute Deed of Sale dated January 31, 1994 will not affect innocent third persons as the same is binding only between the buyer and seller prior to its registration. Thus, petitioners' annotation of a Notice of *Lis Pendens* on February 23, 1994 prior to MBTC's registration of its Absolute Deed of Sale dated January 31, 1994 on June 15, 1994 renders the latter a buyer in bad faith.⁹³

As to AFRDI, petitioners maintain that when AFRDI acquired the subject three lots from Bernal on April 23, 1993, there was a Notice of *Lis Pendens* under Entry No. 50908 dated October 1, 1992 on TCT Nos. 178934, 178935, and 178936, thereby binding subsequent parties whose titles are derived therefrom. The CA in G.R. SP No. 30354 clearly upheld the Notice of *Lis Pendens* annotated on Bernal's titles, *i.e.*, TCT Nos. 178934, 178935, and 178936.⁹⁴

Hence, the cancellation by the Register of Deeds, Makati City of the said Notice of *Lis Pendens* on March 12, 1993 has therefore no legal and factual

⁹⁰ Id. at 24-25.

⁹¹ Id. at 27-28.

⁹² Id. at 27-28.

⁹³ Id. at 28-30.

⁹⁴ Id. at 30-32.

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bases. The registration of the Absolute Deed of Sale dated April 23, 1993 without carrying over the registered Notice of *Lis Pendens* therein does not make AFRDI a buyer in good faith. Its alleged ownership over the subject three lots emanated from fraudulent documents, and titles that were later declared in Civil Case No. 92-2831 as null and void *ab initio*. Consequently, AFRDI's titles, *i.e.*, TCT Nos. 185022, 185023, and 185024, are, likewise, null and void.⁹⁵

Petitioners also note that Civil Case No. 92-2831 had already become final and executory. Thus, MBTC's titles over the subject three lots are likewise null and void as they emanated and were derived from AFRDI's titles that were already declared null and void in Civil Case No. 92-2831.⁹⁶

Furthermore, petitioners contend that the CA's pronouncement that even a forged or fraudulent document may become the root of a valid title if the property has already been transferred from the name of the owner to the forger, contravenes Sec. 53 of PD 1529 that specifically limits the application and protection of good faith to purchasers of original petition or application. Hence, any subsequent registration, if procured through fraud or forgery, cannot be protected under the mantle of good faith.⁹⁷

Lastly, petitioners demand actual damages, moral damages, exemplary damages and attorneys' fees.

Petitioners opine that they are entitled to actual damages as reasonable compensation for MBTC's use and occupation of the subject three lots, *i.e.*, PHP 250,000.00 per month from the time of MBTC's unlawful possession of the subject three lots on February 23, 1994 until their actual surrender to petitioners.⁹⁸

As to moral damages, petitioners assert that because of respondents' concerted acts in depriving them of the use and occupation of a valuable real estate property, they suffered continuous mental anguish, fright, serious anxiety, besmirched reputation, moral shock, social humiliation, and sleepless nights. Thus, they demand PHP 1,000,000.00 as moral damages.⁹⁹

In addition, they pray for an award of PHP 500,000.00 as exemplary damages to serve as a lesson to the public and to discourage others from committing fraudulent transactions and irregularities in dealing with real properties covered by the Torrens system, and a reasonable amount of attorney's fees, *i.e.*, PHP 300,000.00 for the expenses incurred in the litigation of the subject three lots which spanned more or less 20 years.¹⁰⁰

⁹⁵ Id. at 32-36.

⁹⁶ Id.

⁹⁷ Id. at 36-41.

⁹⁸ Id. at 41-43.

⁹⁹ Id. at 43-44.

¹⁰⁰ Id. at 45-48.

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Respondents MBTC and Chan's Arguments

Respondents MBTC and Chan opine that the question of whether MBTC is a buyer in good faith is one of fact that is outside the scope of a petition for review on *certiorari* under Rule 45. They contend that the Court is not a trier of facts and its jurisdiction is confined to reviewing errors of law that may have been committed in the judgment under review. They maintain that the petitioners' arguments are a mere rehash of those raised in and judiciously passed upon by the courts *a quo*.¹⁰¹

Furthermore, respondents contend that MBTC is a buyer in good faith as the titles were free from any liens and encumbrances when MBTC purchased the subject three lots from AFRDI. Also, MBTC verified and counterchecked the titles of the subject three lots with the Register of Deeds, Makati City. MBTC validly relied on the correctness of the certificates of title issued and is not obliged to go behind the certificates to determine the condition of the property. Thus, respondents maintain that MBTC is an innocent purchaser for value that is entitled to enjoy the protection of the law on indefeasibility of titles.¹⁰²

Moreover, the annotation of the adverse claim and notice of *lis pendens* on Bernal's titles, *i.e.*, TCT Nos. 178934, 178935, and 178936, does not negate the fact that MBTC is an innocent purchaser for value and in good faith. Respondents insist that MBTC had no knowledge of such adverse claim at the time of sale on January 31, 1994. The MBTC took the necessary precautions to verify the status of the titles of the subject three lots.¹⁰³

Also, respondents note that the subsequent annotation of a Notice of *Lis Pendens* on February 23, 1994 on AFRDI's titles, *i.e.* TCT Nos. 185022, 185023, and 185024, will not make MBTC a buyer in bad faith. Respondents argue that the sale between MBTC and AFRDI was already perfected on January 31, 1994. The subsequent registration of the absolute deed of sale dated January 31, 1994 on June 15, 1994, even with the prior annotation of a Notice of *Lis Pendens* dated February 23, 1994, will not affect MBTC's status as a buyer in good faith.

Respondents Ison and Domingo's Arguments

Respondents Ison and Domingo assert that the present petition is fatally defective as it raises pure questions of fact that are inappropriate in a petition for review on *certiorari* under Rule 45. They argue that the ascertainment of good faith or the lack of it, and the determination of whether due diligence and

¹⁰¹ *Rollo*, Vol. II, pp. 602-603.

¹⁰² *Id.* at 604-606.

¹⁰³ *Id.* at 607-611.

prudence was exercised or not, are questions of fact. In addition, they opine that the issue on the amount of damages awarded calls for the reevaluation of evidence which is obviously a question of fact.¹⁰⁴

Furthermore, Ison and Domingo argue that the CA did not commit reversible error in affirming *in toto* the findings of the RTC of Makati City, Branch 60 that MBTC is an innocent purchaser for value.¹⁰⁵ They maintain that MBTC duly established that at the time of its purchase of the subject three lots from AFRDI, the titles were clean. MBTC's further verification with the Register of Deeds, Makati City yielded no information about any defect in the titles of AFRDI. Hence, MBTC's titles over the subject three lots must be respected and protected although AFRDI acquired titles over them through fraudulent means.¹⁰⁶

Respondents Ison and Domingo echo the stance of MBTC and Chan that when the Notice of *Lis Pendens* was annotated on AFRDI's titles on February 23, 1994, the sale between MBTC and AFRDI was already consummated. Hence, the said subsequent annotation of a notice of *lis pendens* cannot defeat MBTC's status as a buyer in good faith and for value.¹⁰⁷

Anent the damages awarded, respondents Ison and Domingo contend that the amount of PHP 200,000.00 as moral damages awarded to petitioners is fair and reasonable under the circumstances. Nonetheless, they opine that petitioners are not entitled to exemplary damages as there is no sufficient proof that Ison and Domingo acted in bad faith or wanton manner.¹⁰⁸

Respondents AFRDI and Ranullo

Respondents AFRDI and Ranullo failed to file their respective comments on the petition despite due notice. Thus, they are deemed to have waived the filing of their respective comments. Pending the resolution of the petition, respondent Ranullo died on January 20, 2010.¹⁰⁹

Our Ruling

After a careful consideration, We find the petition meritorious.

For ease of reference, the table below shows the transfers and/or transactions that transpired involving the subject three lots:

¹⁰⁴ Id. at 718-719.

¹⁰⁵ Id. at 720.

¹⁰⁶ Id. at 720-721.

¹⁰⁷ Id. at 720-722.

¹⁰⁸ Id. at 722-724.

¹⁰⁹ Id. at 705.

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Registered Owner	Transfer Certificate of Title Number	Date Issued	Instrument or Deed of Conveyance
1. Dolores Egido Vda. De Sola	TCT Nos. T-79864, T-79865 and T-79866	(not found in records)	(not found in records)
2. Bellever Brothers, Inc.	TCT Nos. S-68301, S-68302 and S-68303	May 22, 1978	(not found in records)
3. Adelaida T. Bernal	TCT Nos. 178934, 178935 and 178936	March 19, 1992	Deed of Absolute Sale dated December 18, 1985
4. AF Realty Development, Inc.	TCT Nos. 185022, 185023 and 185024	April 28, 1993	Deed of Absolute Sale dated April 23, 1993
5. Metropolitan Bank and Trust Company	TCT Nos. 195231, 195232 and 195233	June 15, 1994	Deed of Absolute Sale dated January 31, 1994

Moreover, a perusal of the records reveals that the subject three lots were involved in three separate civil actions including the present case, namely:

Civil Case Number	Court	Parties	Nature of Action
1. Civil Case No. 29782	CFI, Pasig, Branch 19 (now RTC of Pasig, Branch 158)	Plaintiff: Dolores substituted by her heir Carmen who thereafter assigned her rights to petitioner Florencia Defendants: BBI and MSI	Action to rescind and/or declare the nullity of sale of the subject three lots, and to cancel BBI's titles
2. Civil Case No. 92-2831	RTC of Makati City, Branch 61	Plaintiffs: Spouses Duenas Defendants: Bernal, BBI, Jesse Beato, and Flores	Action to declare the nullity of TCT Nos. 178934, 178935 and 178936 (Bernal's titles) and the Absolute Deed of Sale dated December 18, 1985
3. Civil Case No. 94-751 (Present Case)	RTC of Makati City, Branch 60	Plaintiffs: Spouses Duenas (Daniel later on substituted by his heirs Daphne and Florencia) Defendants: Bernal, AFRDI, Ison, Domingo, Ranullo, MBTC and Chan	Action to declare the nullity of TCT Nos. 185022, 185022 and 185024 (AFRDI's titles), and to demand damages

At the outset, We state that the issue of Bernal's fraudulent acquisition of titles over the subject three lots, *i.e.*, TCT Nos. 178934, 178935, and 178936, had already been passed upon and settled in Civil Case No. 92-2831.¹¹⁰ Thus, as between petitioners Florencia and Daphne, and respondent Bernal, the former have conclusively established their right of ownership over the subject three lots.

¹¹⁰ Records, Vol. III, pp. 986-988.

The June 19, 1995 Decision of the RTC of Makati City, Branch 61 in Civil Case No. 92-2831 had already become final and executory, and thus constitutes *res judicata* with regard to the nullity of Bernal's titles. The principle of *res judicata* holds that issues actually and directly resolved in a former suit cannot be raised in any future case between the same parties.¹¹¹ As correctly ruled by the court *a quo*:

Besides, the decision rendered by RTC-Br.61 entitled Spouses Duenas, et al. vs. Bernal and docketed as Civil Case No. 92-2831 conclusively established plaintiff's right of ownership over the subject properties. The decision finding in favor of plaintiff Duenas as against defendant Bernal by declaring TCT Nos. 178934, 178935 and 178936 null and void and which has become final, unappealable and executory constitutes *res judicata* in so far as the nullity of the aforesaid titles is concerned.¹¹²

Notably, the said June 19, 1995 Decision of RTC of Makati City, Branch 61 in Civil Case No. 92-2831 was annotated on MBTC's titles, *i.e.*, TCT Nos. 195231, 195232, and 195233 on September 11, 2000 under entry no. 46768.¹¹³

Further, it is worth noting that MSI did not appeal the assailed CA's March 15, 2013 Decision and the October 8, 2013 Resolution. Consequently, no affirmative relief can be granted to MSI, if any, in the present petition. As far as MSI is concerned, the CA's March 15, 2013 Decision and the October 8, 2013 Resolution affirming *in toto* the RTC of Makati City, Branch 60's January 15, 2002 Decision and April 23, 2002 Order in Civil Case No. 94-751 are already final. It is settled that no affirmative relief can be granted to those parties who did not appeal. Hence, MSI is entitled to 40% of the amount paid by MBTC to AFRDI as purchase price for the sale of the subject three lots, *i.e.*, 40% of PHP 39,308,000.00.

Conversely, petitioners Florencia and Daphne's share on the subject three lots or the purchase price thereof paid by MBTC is only 60%. To clarify, the subject matter of the present controversy pertains only to the alleged ownership of petitioners over the subject three lots comprising 60% thereof. Thus, any reference on petitioners Florencia and Daphne's alleged right of ownership over the subject three lots is construed to pertain only to 60%.

With the foregoing matters settled, the remaining issues for resolution are: a) whether AFRDI's acquisition of titles over the subject three lots from Bernal, *i.e.* TCT Nos. 185022, 185023, and 185024, and the subsequent transfer of titles to MBTC, *i.e.*, TCT Nos. 195231, 195232, and 195233, are tainted with bad faith; and b) whether petitioners Florencia and Daphne are entitled to actual damages, moral damages, exemplary damages, and attorney's fees.

¹¹¹ *AFP Mutual Benefit Association, Inc. v. RTC, Marikina City, Branch 193*, 658 Phil. 69, 77-78 (2011).

¹¹² Records, Vol. VI, p. 2231.

¹¹³ *Id.* at 2288, 2291 & 2294.

The crux of the controversy is rooted on the alleged lack of good faith on the part of AFRDI and MBTC when they acquired the subject three lots from Bernal and AFRDI, respectively. However, before proceeding to the substantial issues of the case, We first resolve the procedural issue, that is, whether the determination of good faith is a question of fact and therefore outside the ambit of a petition for review on *certiorari* under Rule 45.

The determination of good faith is a question of fact which is outside the ambit of Rule 45. However, the rule admits of certain exceptions

As a general rule, only questions of law may be raised in a petition for review on *certiorari*¹¹⁴ under Rule 45 as this Court is not a trier of facts. In the exercise of the power of review, We do not normally undertake a re-examination of the evidence presented by the contending parties during the trial of the case, that is, the ascertainment of whether AFRDI and MBTC acted in good faith in buying the subject three lots, respectively. However, the said rule admits of exceptions, such as in the present case. The findings of facts of the courts *a quo* will not bind the parties considering that the inference made on the evidence is mistaken and the judgment is based on a misapprehension of facts.¹¹⁵

Hence, We now proceed to the core of controversy.

Who is an innocent purchaser in good faith and for value?

The prevailing rule in dealing with registered lands is that one need not inquire beyond the four corners of the Torrens certificate of title.¹¹⁶ The purpose of the Torrens system is to “obviate possible conflicts of title by giving the public the right to rely upon the face of the Torrens certificate and to dispense, as a rule, with the necessity of inquiring further.”¹¹⁷ In line with the foregoing, Section 44 of PD 1529 expressly recognizes innocent purchasers in good faith and for value and their right to rely on a clean title:

Section 44. *Statutory liens affecting title.* — **Every registered owner receiving a certificate of title in pursuance of a decree of registration, and every subsequent purchaser of registered land taking a certificate of title for value and in good faith, shall hold the same free from all encumbrances** except those noted in said certificate and any of the following encumbrances which may be subsisting, namely:

¹¹⁴ RULES OF COURT, Rule 45, Sec. 1.

¹¹⁵ *Locsin v. Hizon*, 743 Phil. 420, 428 (2014).

¹¹⁶ *Leong v. See*, 749 Phil. 314, 323 (2014).

¹¹⁷ *Id.*

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First. Liens, claims or rights arising or existing under the laws and Constitution of the Philippines which are not by law required to appear of record in the Registry of Deeds in order to be valid against subsequent purchasers or encumbrances of record.

Second. Unpaid real estate taxes levied and assessed within two years immediately preceding the acquisition of any right over the land by an innocent purchaser for value, without prejudice to the right of the government to collect taxes payable before that period from the delinquent taxpayer alone.

Third. Any public highway or private way established or recognized by law, or any government irrigation canal or lateral thereof, if the certificate of title does not state that the boundaries of such highway or irrigation canal or lateral thereof have been determined.

Fourth. Any disposition of the property or limitation on the use thereof by virtue of, or pursuant to, Presidential Decree No. 27 or any other law or regulations on agrarian reform. (Emphasis and underscoring supplied)

In *Leong v. See*,¹¹⁸ We defined an innocent purchaser for value as:

An innocent purchaser for value refers to someone who “buys the property of another without notice that some other person has a right to or interest in it, and who pays a full and fair price at the time of the purchase or before receiving any notice of another person’s claim.” One claiming to be an innocent purchaser for value has the burden of proving such status.

The protection of innocent purchasers in good faith for value grounds on the social interest embedded in the legal concept granting indefeasibility of titles. Between the third party and the owner, the latter would be more familiar with the history and status of the titled property. Consequently, an owner would incur less costs to discover alleged invalidities relating to the property compared to a third party. Such costs are, thus, better borne by the owner to mitigate costs for the economy, lessen delays in transactions, and achieve a less optimal welfare level for the entire society.¹¹⁹ (Emphasis and underscoring supplied, citations omitted)

Under Sec. 32¹²⁰ of PD 1529, the definition of an innocent purchaser for value has been expanded to include an innocent lessee, mortgagee, or other

¹¹⁸ *Supra*.

¹¹⁹ *Id.* at 324-325.

¹²⁰ Sec. 32, PD 1529 reads:

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

Upon the expiration of said period of one year, the decree of registration and the certificate of title issued shall become incontrovertible. Any person aggrieved by such decree of

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encumbrancer for value. To be accorded the protection in Sec. 44, a buyer of registered land must comply with two parameters: (a) payment of *value, i.e.*, a full and fair price for the property and (b) the buyer must have purchased the property in *good faith*. In essence, *good faith* is a state of mind consisting of honesty in belief or purpose, faithfulness to one's duty or obligation, observance of reasonable commercial standards of fair dealing in a given trade or business, or absence of intent to defraud or to seek unconscionable advantage.¹²¹

Further, the Court in *Bautista v. Silva*¹²² and *Gabutan v. Nacalaban*,¹²³ We ruled that for one to be considered a purchaser for value and in good faith, the following requisites must concur:

In *Bautista v. Silva*, we reiterated the requisites for one to be considered a purchaser in good faith:

A buyer for value in good faith is one who buys property of another, without notice that some other person has a right to, or interest in, such property and pays full and fair price for the same, at the time of such purchase, or before he has notice of the claim or interest of some other persons in the property. He buys the property with the well-founded belief that the person from whom he receives the thing had title to the property and capacity to convey it.

To prove good faith, a buyer of registered and titled land need only show that he relied on the face of the title to the property. He need not prove that he made further inquiry for he is not obliged to explore beyond the four corners of the title. Such degree of proof of good faith, however, is sufficient only when the following conditions concur: first, the seller is the registered owner of the land; second, the latter is in possession thereof; and third, at the time of the sale, the buyer was not aware of any claim or interest of some other person in the property, or of any defect or restriction in the title of the seller or in his capacity to convey title to the property.

Absent one or two of the foregoing conditions, then the law itself puts the buyer on notice and obliges the latter to exercise a higher degree of diligence by scrutinizing the certificate of title and examining all factual circumstances in order to determine the seller's title and capacity to transfer any interest in the property. Under such circumstance, it is no longer sufficient for said buyer to merely show that he relied on the face of the title; he must now also show that he exercised reasonable precaution by inquiring beyond the title. Failure to exercise such degree of precaution makes him a buyer in bad faith.¹²⁴ (Emphasis and

registration in any case may pursue his remedy by action for damages against the applicant or any other persons responsible for the fraud.

¹²¹ See *Maynilad Water Services, Inc. v. The Secretary of the Department of Environment and Natural Resources*, G.R. Nos. 202897, 206823 & 207969, July 19, 2022, citing Black's Law Dictionary, 9th ed. West Publishing Co., 2009, p. 762.

¹²² 533 Phil. 627 (2006).

¹²³ 788 Phil. 546 (2016).

¹²⁴ Id. at 575-576.

underscoring supplied; citations omitted)

Moreover, the Court in *Nobleza v. Nuega*¹²⁵ and *Dy v. Aldea*¹²⁶ held that to successfully invoke the ordinary presumption of good faith, the buyer must have shown prudence and due diligence in the exercise of his or her rights.

An innocent purchaser for value is one who buys the property of another, without notice that some other person has a right or interest in the property, for which a full and fair price is paid by the buyer at the time of the purchase or before receipt of any notice of claims or interest of some other person in the property. It is the party who claims to be an innocent purchaser for value who has the burden of proving such assertion, and **it is not enough to invoke the ordinary presumption of good faith. To successfully invoke and be considered as a buyer in good faith, the presumption is that first and foremost, the “buyer in good faith” must have shown prudence and due diligence in the exercise of his/her rights.** It presupposes that the buyer did everything that an ordinary person would do for the protection and defense of his/her rights and interests against prejudicial or injurious concerns when placed in such a situation. **The prudence required of a buyer in good faith is not that of a person with training in law, but rather that of an average man who ‘weighs facts and circumstances without resorting to the calibration of our technical rules of evidence of which his knowledge is nil.’** A buyer in good faith does his homework and verifies that the particulars are in order — such as the title, the parties, the mode of transfer and the provisions in the deed/contract of sale, to name a few. **To be more specific, such prudence can be shown by making an ocular inspection of the property, checking the title/ownership with the proper Register of Deeds alongside the payment of taxes therefor, or inquiring into the minutiae such as the parameters or lot area, the type of ownership, and the capacity of the seller to dispose of the property, which capacity necessarily includes an inquiry into the civil status of the seller to ensure that if married, marital consent is secured when necessary.** In fine, for a purchaser of a property in the possession of another to be in good faith, he must exercise due diligence, conduct an investigation, and weigh the surrounding facts and circumstances like what any prudent man in a similar situation would do.¹²⁷ (Emphasis and underscoring supplied; citations omitted)

In *Domingo Realty, Inc. v. Court of Appeals*¹²⁸ and *Locsin v. Hizon*,¹²⁹ We elucidated on the precautionary measures and diligence a prospective buyer of titled lands must observe to ensure the legality of the title and the accuracy of the metes and bounds of the lots to be purchased, to wit:

Thus, in *Domingo Realty, Inc. v. CA*, we emphasized the need for prospective parties to a contract involving titled lands to exercise the diligence of a reasonably prudent person in ensuring the legality of the title, and the accuracy of the metes and bounds of the lot embraced therein, by undertaking precautionary measures, such as:

¹²⁵ 755 Phil. 656 (2015).

¹²⁶ 816 Phil. 657 (2017).

¹²⁷ Id. at 669-670.

¹²⁸ 542 Phil. 39 (2007).

¹²⁹ Supra note 116.

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1. Verifying the origin, history, authenticity, and validity of the title with the Office of the Register of Deeds and the Land Registration Authority;
2. Engaging the services of a competent and reliable geodetic engineer to verify the boundary, metes, and bounds of the lot subject of said title based on the technical description in the said title and the approved survey plan in the Land Management Bureau;
3. Conducting an actual ocular inspection of the lot;
4. Inquiring from the owners and possessors of adjoining lots with respect to the true and legal ownership of the lot in question;
5. Putting up of signs that said lot is being purchased, leased, or encumbered; and
6. Undertaking such other measures to make the general public aware that said lot will be subject to alienation, lease, or encumbrance[.]¹³⁰

In sum, the mirror doctrine provides that every person dealing with a registered land may safely rely on the correctness of the certificate of title issued therefor and is not obliged to go beyond the certificate to determine the condition of property. "As such, a defective title, or one the procurement of which is tainted with fraud and misrepresentation — may be the source of a completely legal and valid title, provided that the buyer is an innocent third person who, in good faith, relied on the correctness of the certificate of title, or an innocent purchaser for value."¹³¹

However, the said rule admits of certain exceptions, namely: (a) when the party has actual knowledge of facts and circumstances that would impel a reasonably cautious man to make further inquiry; (b) when the buyer has knowledge of a defect or the lack of title in his vendor; or (c) when the buyer/mortgagee is a bank or an institution of similar nature as they are enjoined to exert a higher degree of diligence, care, and prudence than individuals in handling real estate transactions.¹³²

Guided by the foregoing legal precepts, and before revisiting our current concept of 'good faith' required of a purchaser, We resolve whether AFRDI and MBTC respectively hold an indefeasible title to the subject three lots as innocent purchasers in good faith and for value under current parameters. In applying the foregoing, AFRDI and MBTC are deemed wanting.

a. AFRDI is not a purchaser in good faith and for value.

¹³⁰ Id. at 430-431.

¹³¹ *Dy v. Aldea*, supra 668.

¹³² *Calma v. Atty. Lachica*, 821 Phil. 607, 620 (2017).

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A perusal of the records shows that TCT Nos. 178934, 178935, and 178936 in the name of Bernal had the following annotations: (a) Affidavit of Adverse Claim dated August 31, 1992 by petitioner Florencia who claimed ownership over the subject three lots by virtue of a deed of assignment dated July 31, 1991 under entry no. 48918 annotated on September 2, 1992; and (b) Notice of *Lis Pendens* dated October 1, 1992 under Entry No. 45319 annotated on the same day, October 1, 1992, stating that the subject three lots were subjects of a pending litigation docketed as Civil Case No. 92-2831.

Thereafter, Bernal sold the subject three lots to AFRDI which claimed that it acquired the titles free from any lien or encumbrances. AFRDI argued that at the time of its acquisition of the subject three lots by virtue of a Deed of Absolute Sale dated April 23, 1993, the Notice of *Lis Pendens* dated October 1, 1992 was already cancelled by Ison of the Register of Deeds of Makati City under Entry No. 60929 on March 12, 1993. The said cancellation was based on the January 25, 1993 Order of RTC of Makati City, Branch 61 that allegedly became final and executory on March 12, 1993, the same day Entry No. 60929 was inscribed.

Although it is true that the annotation of a Notice of *Lis Pendens* dated October 1, 1992 was already cancelled in the titles of Bernal, *i.e.*, TCT Nos. 178934, 178935, and 178936 on March 12, 1993, or prior to the sale of the subject three lots to AFRDI on April 23 1993, it bears noting that Bernal's TCT Nos. 178934, 178935, and 178936 still bear the annotation of the Affidavit of Adverse Claim dated August 31, 1992. The annotation of the Affidavit of Adverse Claim was cancelled only by Domingo of the Register of Deeds, Makati City on April 28, 1993 under Entry No. 63539, or five days after the sale to AFRDI. "The annotation of an adverse claim is a measure designed to protect the interest of a person over a piece of real property, and serves as a notice and warning to third parties dealing with said property that someone is claiming an interest on the same or may have a better right than the registered owner thereof."¹³³

Notably, the titles of AFRDI, *i.e.*, TCT Nos. 185022, 185023, and 185024 were issued on April 28, 1993 or on the same day Entry No. 48918 or the petitioners' affidavit of adverse claim dated August 31, 1992 was cancelled. With the foregoing, AFRDI cannot validly claim that it had no knowledge or notice of any fact and circumstance that would impel it to make further inquiry. The fact that AFRDI bought the subject three lots knowing that the Affidavit of Adverse Claim dated August 31, 1992 was duly annotated on Bernal's titles and was not yet cancelled during their sale transaction means that AFRDI was duly informed of the defect or lack of title, if any, of its vendor Bernal.

¹³³ *Rufloe v. Burgos*, 597 Phil. 261, 271 (2009).

Moreover, nothing in the records would show that AFRDI or any of its officers or representatives inquired into the veracity of petitioner Florencia's claim of ownership over the subject three lots by virtue of her affidavit of adverse claim dated August 31, 1992. AFRDI, cannot, therefore, seek the protection accorded by law to innocent purchasers in good faith and for value on the pretext that the Affidavit of Adverse Claim dated August 31, 1992 was already cancelled on April 28, 1993.

To reiterate, AFRDI already had prior knowledge of petitioner Florencia's claim over the subject three lots when it purchased the subject properties from Bernal. Thus, AFRDI cannot simply rely on the certificates of title when the said titles were not clearly free from any lien or encumbrance.

Besides, Entry No. 63539 that cancelled Entry No. 48918 or the Affidavit of Adverse Claim dated October 31, 1992 was not even clear on what ground or under whose order the said adverse claim was cancelled. What is clear is that AFRDI registered its Deed of Absolute Sale dated April 23, 1993 on April 28, 1993 which coincided with the cancellation of the Affidavit of Adverse Claim dated August 31, 1992 by Domingo of the Register of Deeds, Makati City.

Sec. 70 of PD 1529 clearly states that an adverse claim annotated on a certificate of title has an effective date of 30 days. After the lapse of such period, the adverse claim may be cancelled upon filing of a verified petition by the party in interest, thus:

Section 70. Adverse claim.—Whoever claims any part or interest in registered land adverse to the registered owner, arising subsequent to the date of the original registration, may, if no other provision is made in this Decree for registering the same, make a statement in writing setting forth fully his alleged right or interest, and how or under whom acquired, a reference to the number of the certificate of title of the registered owner, the name of the registered owner, and a description of the land in which the right or interest is claimed.

The statement shall be signed and sworn to, and shall state the adverse claimant's residence, and a place at which all notices may be served upon him. This statement shall be entitled to registration as an adverse claim on the certificate of title. **The adverse claim shall be effective for a period of thirty days from the date of registration. After the lapse of said period, the annotation of adverse claim may be canceled upon filing of a verified petition therefor by the party in interest.** Provided, however, that after cancellation, no second adverse claim based on the same ground shall be registered by the same claimant.

Before the lapse of thirty days aforesaid, any party in interest may file a petition in the Court of First Instance where the land is situated for the cancellation of the adverse claim, and the court shall grant a speedy hearing upon the question of the validity of such adverse claim, and shall render judgment as may be just and

equitable. If the adverse claim is adjudged to be invalid, the registration thereof shall be ordered canceled. If, in any case, the court, after notice and hearing, shall find that the adverse claim thus registered was frivolous, it may fine the claimant in an amount not less than one thousand pesos nor more than five thousand pesos, in its discretion. Before the lapse of thirty days, the claimant may withdraw his adverse claim by filing with the Register of Deeds a sworn petition to that effect. (Emphasis and underscoring supplied)

The records are bereft of any showing that AFRDI or Bernal filed a verified petition to cancel petitioner Florencia's affidavit of adverse claim dated August 31, 1992. Notwithstanding the 30-day validity of the adverse claim from the date of its registration, this does not negate the fact that AFRDI was aware of its annotation on Bernal's titles at the time of its purchase. AFRDI cannot therefore refute such knowledge and invoke the cloak of protection accorded to an innocent purchaser for its failure to exercise the diligence of a reasonably prudent person in employing precautionary measures to ensure the legality of the titles of the properties it intends to purchase.

For the foregoing reasons, AFRDI is considered a buyer in bad faith and therefore not entitled to protection of law.

b) MBTC is not an innocent purchaser in good faith and for value at the time of the execution of the Deed of Absolute Sale dated January 31, 1994.

At the outset, it is worthy to stress that “[b]anks assume a degree of prudence and diligence higher than that of a good father of a family, because their business is imbued with public interest and is inherently fiduciary.”¹³⁴ In the same vein, banking institutions are enjoined to exert a higher degree of diligence, care, and prudence than ordinary individuals in handling real estate transactions. “When the purchaser or mortgagee is a bank, the rule on innocent purchasers or mortgagees for value is applied more strictly.”¹³⁵ A banking institution cannot, therefore, simply rely on the face of the certificate of title and assume that because the certificate of title is free from any lien or encumbrances, it is relieved from the responsibility of taking further steps to verify the title and inspect the properties. It is expected to verify the genuineness of the title and investigate who is/are its real owner/s and actual possessors.¹³⁶

Thus, while MBTC examined TCT Nos. 185022, 185023, and 185204 covering the subject properties and found that they were clean on its face and free from any annotations at the time of sale on January 31, 1994,¹³⁷ and relied on the representations of its Department of Internal Affairs that the titles were

¹³⁴ *Poole-Blunden v. Union Bank of the Philippines*, 821 Phil. 915, 935 (2017).

¹³⁵ *Land Bank of the Philippines v. Belle Corporation*, 768 Phil. 368, 385 (2015).

¹³⁶ *Id.* at 385-386.

¹³⁷ TSN, November 8, 1995, p. 6.

authentic,¹³⁸ the banking institution should have flagged the numerous cancelled annotations - consisting of several pages of the TCTs - which, albeit already cancelled, forewarn of a long history of disputes plaguing the three subject lots. MBTC should have been further put into alert when it conducted a physical inspection of the three subject lots and found the same to be occupied by informal settlers. In *Crisostomo v. Court of Appeals*,¹³⁹ We ruled:

It is a well-settled rule that a purchaser or mortgagee cannot close his [or her] eyes to facts which should put a reasonable man [or woman] upon his [or her] guard, and then claim that he [or she] acted in good faith under the belief that there was no defect in the title of the vendor or mortgagor. **His [or her] mere refusal to believe that such defect exists, or his [or her] willful closing of his [or her] eyes to the possibility of the existence of a defect in the vendor's or mortgagor's title, will not make him an innocent purchaser or mortgagee for value, if it afterwards develops that the title was in fact defective, and it appears that he [or she] had such notice of the defects as would have led to its discovery had he [or she] acted with the measure of precaution which may be required of a prudent man [or woman] in a like situation.**¹⁴⁰ (Emphasis supplied and citations omitted)

To stress, a “buyer of real property which is in possession of another must be wary and investigate the rights of the latter. Otherwise, without such inquiry, the buyer cannot be said to be in good faith and cannot have any right over the property[.]”¹⁴¹ Thus, instead of merely relying on the face of the title and AFRDI's representations that the occupants were members of the NPA and informal settlers and requiring AFRDI to eject the illegal occupants, and disregarding these circumstances that should have reasonably aroused its suspicion, it was incumbent upon MBTC to be mindful of these red flags and to conduct an exhaustive investigation into any issues or clouds on the title of the subject three lots.

Had MBTC earnestly exerted the required diligence and further investigated the status of the property by utilizing the vast resources in its disposal instead of acting in undue haste, it would have discovered the defects plaguing the titles of the subject three lots. However, it miserably failed to do so. Verily, at the time of the purchase, MBTC is a buyer in bad faith and therefore has no rights over the three subject lots.

Nevertheless, the peculiar circumstances of this case and the arguments raised by the parties behoove the Court to reexamine one of the basic concepts under our land registration laws. To recall, in considering MBTC to be a purchaser in good faith, the appellate court stressed that the subsequent annotation of the Notice of *Lis Pendens* **after the consummation of the sale between**

¹³⁸ TSN, November 8, 1995, p. 7; TSN, December 1, 1995, p. 3; TSN, December 7, 1999, pp. 23-24.

¹³⁹ 274 Phil. 1134 (1991).

¹⁴⁰ Id. at 1142-1143.

¹⁴¹ *Tamayao v. Lacambra*, G.R. No. 244232, November 3, 2020.

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AFRDI and MBTC but prior to MBTC's registration of such sale cannot defeat MBTC's status as a buyer in good faith and for value.

It is significant to note that existing jurisprudence merely requires a purchaser to maintain 'good faith' at the time of the sale. In *Bautista v. Silva*,¹⁴² the Court pronounced the parameters of an innocent purchaser for value and in good faith in this wise:

A holder of registered title may invoke the status of a buyer for value in good faith as a defense against any action questioning his [or her] title. Such status, however, is never presumed but must be proven by the person invoking it.

A buyer for value in good faith is one who buys property of another, without notice that some other person has a right to, or interest in, such property and pays full and fair price for the same, at the time of such purchase, or before he [or she] has notice of the claim or interest of some other persons in the property. He [or she] buys the property with the well-founded belief that the person from whom he [or she] receives the thing had title to the property and capacity to convey it.

To prove good faith, a buyer of registered and titled land need only show that he [or she] relied on the face of the title to the property. He [or she] need not prove that he [or she] made further inquiry for he [or she] is not obliged to explore beyond the four corners of the title. Such degree of proof of good faith, however, is sufficient only when the following conditions concur: *first*, the seller is the registered owner of the land; *second*, the latter is in possession thereof; and *third*, **at the time of the sale, the buyer was not aware of any claim or interest of some other person in the property, or of any defect or restriction in the title of the seller or in his [or her] capacity to convey title to the property.**

Absent one or two of the foregoing conditions, then the law itself puts the buyer on notice and obliges the latter to exercise a higher degree of diligence by scrutinizing the certificate of title and examining all factual circumstances in order to determine the seller's title and capacity to transfer any interest in the property. Under such circumstance, it is no longer sufficient for said buyer to merely show that he [or she] relied on the face of the title; he [or she] must now also show that he [or she] exercised reasonable precaution by inquiring beyond the title. Failure to exercise such degree of precaution makes him [or her] a buyer in bad faith.¹⁴³ (Emphasis and underscoring supplied; citations omitted)

Moreover, the Court in *Universal Robina Sugar Milling Corp. v. Heirs of Teves*¹⁴⁴ held:

An innocent purchaser is one who acquired the property for a valuable consideration, not knowing that the title of the vendor or grantor is null and void. He is also one who buys the property of another without notice that some other person has a right to, or interest in, such property and pays a

¹⁴² Supra note 123 at 638-640.

¹⁴³ Id.

¹⁴⁴ 438 Phil. 26 (2002).

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full and fair price for the same, at the time of such purchase, or before he [or she] has notice of the claim or interest of some other persons in the property. **The concept underscores two important factors: (1) the property which is bought for consideration, and (2) the lack of knowledge or notice of adverse claim or interest prior to the sale[.]**¹⁴⁵ (Emphasis supplied and citations omitted)

Thus, assuming *arguendo* that MBTC complied with the standards of good faith until the time of its purchase of the three subject lots from AFRDI, the CA was correct in considering AFRDI to be an innocent purchaser for value and in good faith *under current parameters*.

Nevertheless, in assailing the foregoing, petitioners argue that for a buyer to be considered in good faith, his or her good faith must be continuing from the time of acquisition of the property until the registration of the deed of conveyance. To recall, MBTC only registered the said Deed of Conveyance on June 15, 1994. Obviously, during its registration, TCT Nos. 185022, 185023, and 185024 already contained a Notice of *Lis Pendens*, *i.e.*, Civil Case No. 94-751, which was duly filed and registered on February 23, 1994 by petitioners. Otherwise stated, when MBTC registered the Deed of Absolute Sale, petitioners' Notice of *Lis Pendens* was already annotated on the subject titles. Withal, petitioners assert that MBTC's belated registration of the sale, at a time when the petitioners' Notice of *Lis Pendens* was already annotated on the titles of the three subjects lots, operated to defeat petitioners' good faith in dealing with the transaction.

After a careful reexamination of our land registration laws and jurisprudence, We agree with petitioners. The Court now holds **that buyers of registered land must be continuing purchasers for value and in good faith until the registration of the conveyance**. In the event a buyer of registered land who has yet to register the conveyance is made aware of any claim or interest of some other person in the property, or of any defect or restriction in the title of the seller or in his or her capacity to convey title, the buyer shall no longer be considered to be in good faith even if he or she subsequently registers the conveyance. It is only upon registration of the conveyance in good faith will the purchaser acquire such rights and interest as they appear in the certificate of title, unaffected by any prior lien or encumbrance not noted therein.

In arriving at this conclusion, an initial discussion of the *Torrens* system in the Philippines *vis-à-vis* the role of registration in PD 1529 is in order.

**Registration; role and effects
under PD 1529; the principle of
*primus tempore, potior jure***

The *Torrens* system, and registration of title to land under this framework,

¹⁴⁵ Id. at 39.

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was designed to give titles greater security and afford greater protection to the purchaser. It traces its roots to Australia in 1858, and the same system was later adopted by other countries.¹⁴⁶ Similarly, to establish a framework by which recorded title becomes absolute, indefeasible and imprescriptible, all registered lands in the Philippines were placed under the *Torrens* system of registration pursuant to Act No. 496,¹⁴⁷ otherwise known as the Land Registration Act.¹⁴⁸ PD 1529, known as the Property Registration Decree and which was enacted on June 11, 1978, amended and updated Act No. 496.¹⁴⁹

The goal in establishing the *Torrens* system of registration is to craft a mechanism by which land ownership may be incontrovertibly proven, with the anticipated effect of facilitating the ease, reliability, and enforceability of real estate transactions.¹⁵⁰ The *ratio* for its enactment is to make all evidence of title to lands in the Philippine Islands a matter of record, to the end that all persons dealing or treating with respect of titles to lands might be enabled from the proper register of titles to ascertain the true status and ownership of liens, etc., respecting particular parcels or tracts of land.¹⁵¹

In accord with this purpose, the requirement of registration is at the forefront of PD 1529 in which many of the statute's provisions find anchor. At the outset, inclusion in the *Torrens* system requires an applicant to register in accordance with the procedures laid out in the statute. Upon issuance of the original decree of registration, the statute recognizes an "innocent purchaser for value and in good faith" of registered land, who may rely on the certificate of title and hold the same free from all encumbrances, subject to the stated exceptions in accordance with Sec. 44 of PD 1529, which is worded thus:

Section 44. *Statutory liens affecting title.* — **Every registered owner receiving a certificate of title in pursuance of a decree of registration, and every subsequent purchaser of registered land taking a certificate of title for value and in good faith, shall hold the same free from all encumbrances** except those noted in said certificate and any of the following encumbrances which may be subsisting, namely:

First. Liens, claims or rights arising or existing under the laws and Constitution of the Philippines which are not by law required to appear of record in the Registry of Deeds in order to be valid against subsequent purchasers or encumbrancers of record.

Second. Unpaid real estate taxes levied and assessed within two years immediately preceding the acquisition of any right over the land by an innocent

¹⁴⁶ *Successive Registrations of the Same Land under the "Torrens System"*. Harvard Law Review Vol. 29, No. 7 (May 1916, pp. 772-774). Available at <https://www.jstor.org/stable/132670?origin=crossref#metadata_info_tab_contents> Last accessed on November 22, 2022.

¹⁴⁷ Approved on November 6, 1902.

¹⁴⁸ *Collado v. Court of Appeals*, 439 Phil. 149, 168 (2002), citing Noblejas & Noblejas, *Registration of Land Titles and Deeds*, 1992 Ed.

¹⁴⁹ *Id.*

¹⁵⁰ *BPI Family Savings Bank, Inc. v. Soriano*, G.R. No. 214939, June 8, 2020, 936 SCRA 464, 476.

¹⁵¹ *Liong-Wong-Shih v. Sunico*, 8 Phil. 91, 94 (1907).

purchaser for value, without prejudice to the right of the government to collect taxes payable before that period from the delinquent taxpayer alone.

Third. Any public highway or private way established or recognized by law, or any government irrigation canal or lateral thereof, if the certificate of title does not state that the boundaries of such highway or irrigation canal or lateral thereof have been determined.

Fourth. Any disposition of the property or limitation on the use thereof by virtue of, or pursuant to, Presidential Decree No. 27 or any other law or regulations on agrarian reform. (Emphasis and underscoring supplied)

The requirement of registration is also imposed on conveyances and dealings involving registered land under Secs. 51 and 52 of PD 1529, which provide that:

Section 51. Conveyance and other dealings by registered owner.—An owner of registered land may convey, mortgage, lease, charge or otherwise deal with the same in accordance with existing laws. He [or she] may use such forms of deeds, mortgages, leases or other voluntary instruments as are sufficient in law. **But no deed, mortgage, lease, or other voluntary instrument, except a will purporting to convey or affect registered land shall take effect as a conveyance or bind the land, but shall operate only as a contract between the parties and as evidence of authority to the Register of Deeds to make registration.**

The act of registration shall be the operative act to convey or affect the land insofar as third persons are concerned, and in all cases under this Decree, the registration shall be made in the office of the Register of Deeds for the province or city where the land lies.

Section 52. Constructive notice upon registration.—Every conveyance, mortgage, lease, lien, attachment, order, judgment, instrument or entry affecting registered land shall, if registered, filed or entered in the office of the Register of Deeds for the province or city where the land to which it relates lies, be constructive notice to all persons from the time of such registering, filing or entering. (Emphasis supplied)

Thus, persons who acquire registered land or an interest therein are reposed with the duty to register such conveyances and dealings should they seek to protect their interest on the land in relation to third persons. The requirement of registration goes hand-in-hand with the governing principle embodied in Sec. 51 and Sec. 52 that “**the act of registration shall be the operative act to convey or affect the land insofar as third persons are concerned**” and that “no deed, mortgage, lease or other voluntary instrument, except a will purporting to convey or affect registered land shall take effect as a conveyance or bind the land, but shall operate only as a contract between the parties as evidence of authority to the Register of Deeds to make registration.” Prior to such registration, a deed of sale or conveyance may be entered into freely by the parties, but remains binding only as between the parties thereto. No act of the parties themselves can transfer the ownership of real estate under the Torrens system; that is done by the act of registration of the conveyance which the

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parties have made.¹⁵² Verily, the acquisition of registered land *vis-à-vis* the public is completed not upon the purchase of the property by the buyer, but only upon registration.

Similarly, it is settled that any voluntary and involuntary dealings in registered land that are less than ownership, and its extinguishment, must be duly registered under the Torrens system through the procedure under PD 1529.¹⁵³ These include mortgages and leases,¹⁵⁴ powers of attorney and trusts,¹⁵⁵ attachments,¹⁵⁶ adverse claims,¹⁵⁷ and *lis pendens*.¹⁵⁸ Therefore, in both voluntary and involuntary dealings, **registration is imperative to affect and bind the land against third persons**. Indeed, persons who are not privy to voluntary or involuntary dealings affecting registered land cannot be expected to have constructive knowledge or notice of a conveyance, or voluntary instruments such as deeds, mortgages, and leases, much less be bound by such without such instrument being duly filed and registered with the Register of Deeds.

In the above context, there is manifest inconsistency in allowing a buyer of registered land to maintain good faith only until at the time of the sale, and accord them protection from any liens or annotations they may be made aware of prior to registering the conveyance to notify third persons. On one hand, it is basic under PD 1529 that a conveyance takes effect only upon the parties to the conveyance and would bind third persons only upon registration. On the other, the consequences of becoming an innocent purchaser for value and in good faith (*i.e.* the right to rely on the four corners of the title and hold the same free from liens and encumbrances, as against any competing claims) redound to the benefit of such purchaser and in turn, operates against any and all third persons with an interest or claim on the property transferred. In practical terms, a purchaser who had no notice of any unregistered cloud or lien on his or her property during the sale, but who subsequently receives actual notice of the foregoing prior to registration of the conveyance, is shielded from such notice and retains his or her rights over the land purchased. The conveyance to registered land, to some extent, thereby already becomes binding to non-parties to the transaction even prior to its registration, which is antithetical to the tenets stated in Secs. 51 and 52 of PD 1529.

¹⁵² *Tuason v. Raymundo*, 28 Phil. 635, 637 (1914).

¹⁵³ Section 54, PD 1529 reads:

Section 54. *Dealings less than ownership, how registered*.—No new certificate shall be entered or issued pursuant to any instrument which does not divest the ownership or title from the owner or from the transferee of the registered owners. All interests in registered land less than ownership shall be registered by filing with the Register of Deeds the instrument which creates or transfers or claims such interests and by a brief memorandum thereof made by the Register of Deeds upon the certificate of title, and signed by him. A similar memorandum shall also be made on the owner's duplicate. The cancellation or extinguishment of such interests shall be registered in the same manner.

¹⁵⁴ Sections 60 to 63, PD 1529.

¹⁵⁵ Sections 64 to 68, PD 1529.

¹⁵⁶ Section 69, PD 1529.

¹⁵⁷ Section 70, PD 1529.

¹⁵⁸ Section 76, PD 1529.

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This apparent discordance in our current parameters of good faith is highlighted when the principle of *primus est in tempore, potior est in jure* (first in time, stronger in right), which is controlling in land registration matters,¹⁵⁹ is considered. Under this principle, prior unregistered claims are considered subordinate to registered deeds and conveyances. Moreover, registration alone without good faith is not sufficient. Good faith must concur with registration for such prior right to be enforceable.¹⁶⁰

In *Heirs of Marasigan v. Intermediate Appellate Court*,¹⁶¹ (*Marasigan*), the Court ruled in favor of the duly registered notice of *lis pendens* over a prior unregistered sale, to wit:

There is a clear showing that although the late Maria Marasigan acquired the property in question from the Bazars pursuant to a deed of absolute sale on December 18, 1974 or a little over four months before the filing of Civil Case No. 97479, the transaction became effective as against third persons only on July 5, 1977 when it was registered with the Registry of Deeds of Manila. It is the act of registration which creates constructive notice to the whole world. Section 51 of Act 496, as amended by Section 52 of the Property Registration Decree (P.D. 1529) provides:

“Sec. 52. *Constructive notice upon registration.* — Every conveyance [x x x] affecting registered land shall, if registered, filed or entered in the office of the Register of Deeds for the province or city where the land to which it relates lies, be constructive notice to all persons from the time of such registering, filing or entering.”

Moreover, there is no question that when the late Maria Marasigan was issued her transfer certificate of title to the subject property (T.C.T. No. 126056), the Registrar of Deeds of Manila then carried over to the new title the notice of lis pendens which the private respondent had caused to be annotated at the back of the Bazar's title. In case of subsequent sales or transfers, the Registrar of Deeds is duty bound to carry over the notice of lis pendens on all titles to be issued. Otherwise, if he cancels any notice of lis pendens in violation of his duty, he may be held civilly and even criminally liable for any prejudice caused to innocent third persons (The Director of Lands, et al. v. Reyes, 68 SCRA 177).

A notice of *lis pendens* means that a certain property is involved in a litigation and serves as notice to the whole world that one who buys the same does it at his [or her] own risk (*Rehabilitation Finance Corporation v. Morales*, 101 Phil. 171). It was also a clear notice to Maria Marasigan that there was a court case affecting her rights to the property she had purchased.

As earlier stated it was only on July 5, 1977 that the sale between Maria Marasigan and the Bazars became effective as against third persons. The registration of the deed of sale over the subject property was definitely subsequent to the annotation made on January 27, 1976. Consequently,

¹⁵⁹ *Garcia v. Court of Appeals*, 184 Phil. 358, 365 (1980), citing *La Urbana vs. Bernardo*, 62 Phil. 790, 806 (1936).

¹⁶⁰ *Portes, Sr. v. Arcala*, 505 Phil. 443, 453 (2005).

¹⁶¹ 236 Phil. 274 (1987).

Marasigan was bound by the outcome of the litigation against her vendors or transferors. (See Rivera v. Tirona, et al., 109 Phil. 505).

We reiterate the established rule that:

[x x x] the filing of a notice of *lis pendens* charges all strangers with a notice of the particular litigation referred to therein and, therefore, any right they may thereafter acquire on the property is subject to the eventuality of the suit. The doctrine of *lis pendens* is founded upon reason of public policy and necessity, the purpose of which is to keep the subject matter of the litigation within the power of the Court until the judgment or decree shall have been entered; otherwise, by successive alienations pending the litigation, its judgment or decree shall be rendered abortive and impossible of execution [x x x] (*Laroza v. Guia*, 134 SCRA 341)

The late Marasigan's transferors did not interpose any appeal from the adverse judgment dated February 24, 1976 in Civil Case No. 97479. The 30-day period under the old rule (Rule 41, section 3 of the Revised Rules of court now amended by Batas Pambansa Bilang 129, section 39) within which the Bazars may have taken an appeal started to run from May 12, 1976 when they were served with a copy of the said decision. On June 11, 1976, the February 24, 1976 decision in Civil Case No. 97479 became final and executory. At this point after the finality of the said decision, the Bazars no longer had the right to alienate the property subject of the litigation. Any transaction effective during the period of litigation is subject to the risks implicit in the notice of *lis pendens* and to the eventual outcome of the litigation.¹⁶² (Emphasis and underscoring supplied; citations omitted)

In *Marasigan*, the Court applied Sec. 52 of PD 1529 in ruling that the unregistered sale transaction between Marasigan and the Bazars is not effective against third persons. Thus, when Marasigan registered its Deed of Absolute Sale dated December 18, 1974 only on July 5, 1977, the same operates as a constructive notice to the whole world only from such time. Consequently, at the time of its registration, the Notice of *Lis Pendens* was already registered and annotated on January 27, 1976. Hence, even with the subsequent issuance of title in Marasigan's name, the Notice of *Lis Pendens* was carried over on her title which denotes that Marasigan and the subject property were bound by the outcome of the litigation.

In *Cruz v. Bancom Finance Corp.*,¹⁶³ the Court reiterated that registration is not the operative act for a mortgage to be binding between the parties; **but to third persons, it is indispensable**. In this case, the Adverse Claim and Notice of *Lis Pendens* were annotated on the title on October 30, 1989 and December 10, 1979, respectively. The prior mortgage was registered only on March 14, 1980. The Court applied the doctrine that a prior registration of a lien creates a preference. Hence, as between a prior unregistered mortgage, and a registered adverse claim and Notice of *Lis Pendens*, the latter are considered superior over

¹⁶² Id. at 281-283.

¹⁶³ 429 Phil. 225 (2002).

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the former. The subsequent registration of the prior mortgage will not diminish the preference.¹⁶⁴

In *Du v. Stronghold Insurance Co., Inc.*¹⁶⁵ (*Stronghold*), the Court ruled in favor of a duly registered levy on attachment or execution over a prior unregistered sale. The Court upheld the application and effects of Secs. 51 and 52 of PD 1529, holding thus:

The preference given to a duly registered levy on attachment or execution over a prior unregistered sale is well-settled in our jurisdiction. As early as *Gomez v. Levy Hermanos*, this Court has held that an attachment that is duly annotated on a certificate of title is superior to the right of a prior but unregistered buyer. In that case, the Court explained as follows:

x x x. It is true that she bought the lots with *pacto de retro* but the fact of her purchase was not noted on the certificates of title until long after the attachment and its inscription on the certificates. In the registry, therefore, the attachment appeared in the nature of a real lien when Apolonia Gomez had her purchase recorded. The legal effect of the notation of said lien was to subject and subordinate the right of Apolonia Gomez, as purchaser, to the lien. She acquired the ownership of the said parcels only from the date of the recording of her title in the register, which took place on November 21, 1932 ([S]ec. 51 of Act No. 496; *Liong-Wong-Shih vs. Sunico and Peterson*, 8 Phil. 91; *Tabigue vs. Green*, 11 Phil. 102; *Buzon vs. Lucauco*, 13 Phil. 354; and *Worcester vs. Ocampo and Ocampo*, 34 Phil. 646), and the right of ownership which she inscribed was not an absolute but a limited right, subject to a prior registered lien, by virtue of which Levy Hermanos, Inc. was entitled to the execution of the judgment credit over the lands in question, a right which is preferred and superior to that of the plaintiff (sec. 51, Act No. 496 and decisions cited above). x x x

Indeed, the subsequent sale of the property to the attaching creditor must, of necessity, retroact to the date of the levy. Otherwise, the preference created by the levy would be meaningless and illusory, as reiterated in *Defensor v. Brillo*:

x x x The doctrine is well-settled that a levy on execution duly registered takes preference over a prior unregistered sale; and that even if the prior sale is subsequently registered before the sale in execution but after the levy was duly made, the validity of the execution sale should be maintained, because it retroacts to the date of the levy; otherwise, the preference created by the levy would be meaningless and illusory.

Even assuming, therefore, that the entry of appellants' sales in the books of the Register of Deeds on November 5, 1949 operated to convey the lands to them even without the corresponding entry in the owner's duplicate titles, *the levy on execution on the same lots in Civil Case No. 1182 on August 3, 1949, and their subsequent sale to*

¹⁶⁴ Id. at 241-243.

¹⁶⁵ 475 Phil. 722 (2004).

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appellee Brillo (which retroacts to the date of the levy) still takes precedence over and must be preferred to appellants' deeds of sale which were registered only on November 5, 1949.

This result is a necessary consequence of the fact that the properties herein involved were duly registered under Act No. 496, and of the fundamental principle that registration is the operative act that conveys and binds lands covered by Torrens titles (sections 50, 51, Act 496). Hence, if appellants became owners of the properties in question by virtue of the recording of the conveyances in their favor, their title arose already subject to the levy in favor of the appellee, which had been noted ahead in the records of the Register of Deeds. (Citations omitted, italics supplied)

The Court has steadfastly adhered to the governing principle set forth in Sections 51 and 52 of Presidential Decree No. 1529:

SEC. 51. Conveyance and other dealings by registered owner.—An owner of registered land may convey, mortgage, lease, charge or otherwise deal with the same in accordance with existing laws. He may use such forms of deeds, mortgages, leases or other voluntary instruments as are sufficient in law. But no deed, mortgage, lease, or other voluntary instrument, except a will purporting to convey or affect registered land shall take effect as a conveyance or bind the land, but shall operate only as a contract between the parties and as evidence of authority to the Registry of Deeds to make registration.

The act of registration shall be the operative act to convey or affect the land insofar as third persons are concerned, and in all cases under this Decree, the registration shall be made in the office of the Register of Deeds for the province or the city where the land lies.

SEC. 52. *Constructive notice upon registration.* - Every conveyance, mortgage, lease, lien, *attachment*, order, judgment, instrument or entry affecting registered land shall, if registered, filed or entered in the office of the Register of Deeds for the province or city where the land to which it relates lies, be constructive notice to all persons from the time of such registering, filing or entering. (Italics supplied)

As the property in this case was covered by the torrens system, the registration of Stronghold's attachment was the operative act that gave validity to the transfer and created a lien upon the land in favor of respondent.¹⁶⁶ (Emphasis supplied)

The Court reiterated its ruling in *Stronghold* in *Valdevieso v. Damalerio*¹⁶⁷ when it ruled that the preference accorded to a duly registered levy on attachment takes preference over a prior unregistered sale as a necessary consequence of the fact that the property involved was duly covered by the Torrens system which works under the fundamental principle that registration is the operative act which gives validity to the transfer or creates a lien upon the land. Thus, the petitioner therein acquired ownership of the land only from the date of the

¹⁶⁶ Id. at 731-734.

¹⁶⁷ 492 Phil. 51 (2005).

recording of his title in the register, and the right of ownership which he inscribed was not absolute but a limited right, subject to a prior registered lien of respondents, a right which is preferred and superior to that of petitioner.¹⁶⁸

In *Portes, Sr. v. Arcala*,¹⁶⁹ the Court again upheld the adverse claim dated November 23, 1970 and Notice of *Lis Pendens* dated September 14, 1971 over a sale executed on December 28, 1967 but was registered only on December 16, 1971. Verily, Napoleon, the purchaser in this case, was considered a purchaser in bad faith. However, the Court opined that even if Napoleon was unaware of the conflict involving the subject property, he was already charged with the knowledge of the flaw on the title at the time he registered the sale on December 16, 1971, to wit:

Assuming that Napoleon was unaware of the conflict over Lot 2-A at the time of the execution of the deed of sale, Napoleon was, however, already charged with knowledge of the flaw in Luis' title at the time of the registration of the sale. Inscriptions of an adverse claim dated 23 November 1970 and *lis pendens* dated 14 September 1971 were already annotated on Luis' title over Lot 2-A when Napoleon registered the Deed of Sale on 16 December 1971.

While the sale between Luis and Napoleon bound both parties, the registration of the sale with the property registry is what binds third parties and the world to the transfer of ownership. **Moreover, registration alone without good faith is not sufficient. Good faith must concur with registration for such prior right to be enforceable.**¹⁷⁰ (Emphasis and underscoring supplied)

Furthermore, in *Mahinay v. Judge Lee Gako, Jr.*¹⁷¹ (*Mahinay*), the Court upheld a registered notice of *lis pendens* over a mortgagee in good faith. Mahinay's Notice of *Lis Pendens* was duly annotated on August 17, 1994 while Sorensen's Real Estate Mortgage (REM) was executed on October 27, 1994, and registered on October 28, 1994. Sorensen claimed that he was an innocent mortgagee for value as he relied on the title of the property which appears to be free from any lien or encumbrance. The Court ruled that the prior registration of Mahinay's notice of *lis pendens* bound the whole world including Sorensen, which charged the latter of the notice that the property is under litigation.

Although the Notice of *Lis Pendens* in *Mahinay* was registered prior to the execution of the REM, the Court adhered to the same principle that "*prior est in tempore, potior est in jure* (he who is first in time is preferred in right)." Thus, even if the title does not contain any adverse annotation at the time of the execution of the REM, the Court favored the prior registration over the claim of the mortgagee in good faith. "Having registered his instrument ahead of Sorensen's [REM], Mahinay's Notice of *Lis Pendens* takes precedence over the said [REM]." ¹⁷²

¹⁶⁸ Id. at 58.

¹⁶⁹ Supra note 161.

¹⁷⁰ Id. at 452-453.

¹⁷¹ 677 Phil. 292 (2011).

¹⁷² Id. at 316.

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In *Spouses Suntay v. Keyser Mercantile, Inc.*,¹⁷³ the Court emphasized the doctrine of *primus tempore, potior jure* (first in time, stronger in right) and declared that a duly registered levy on execution is superior to the subsequent registration of a prior unregistered deed of absolute sale, to wit:

The CA stated in its decision that when the subject property was levied and subjected to an execution sale, Bayfront had already sold it to Keyser. As such, Spouses Suntay no longer acquired the right over the subject property from Bayfront because the latter, as judgment debtor, had nothing more to pass. Earlier, the RTC held that at the time Spouses Suntay were to register the auction sale, the subject property was already registered in Keyser's name and, thus, they were fully aware of the earlier sale. It was too late for Spouses Suntay to deny their knowledge of Keyser's title. The RTC also found the auction sale questionable due to the lack of posting and publication of notice.

The Court disagrees with the lower courts. They had completely overlooked the significance of a levy on execution. The doctrine is well-settled that a levy on execution duly registered takes preference over a prior unregistered sale. Even if the prior sale was subsequently registered before the sale in execution but after the levy was duly made, the validity of the execution sale should be maintained because it retroacts to the date of the levy. Otherwise, the preference created by the levy would be meaningless and illusory.

In this case, the contract to sell between Keyser and Bayfront was executed on October 20, 1989, but the deed of absolute sale was only made on November 9, 1995 and registered on March 12, 1996. The Notice of Levy in favor of Spouses Suntay was registered on January 18, 1995, while the Certificate of Sale on April 7, 1995, both dates clearly ahead of Keyser's registration of its Deed of Absolute Sale. Evidently, applying the doctrine of *primus tempore, potior jure* (first in time, stronger in right), Spouses Suntay have a better right than Keyser.¹⁷⁴ (Emphasis and underscoring supplied)

In this scenario, a buyer of registered land may be considered an "innocent purchaser for value and in good faith" under current parameters but his or her claim to the property, owing to a prior unregistered sale, is subordinate to an interest registered prior to registration of the sale. Applying the foregoing, even assuming that MBTC was in good faith at the time of its purchase of the three subject lots, petitioners would still have a superior claim over the subject three lots in view of the earlier registration of petitioners' Notice of *Lis Pendens* on February 23, 1994 on AFRDI's titles *vis-à-vis* MBTC's belated registration of its deed of absolute sale dated January 31, 1994, *i.e.*, on June 15, 1994. In effect, "an innocent purchaser for value and in good faith" as currently defined would not be able to fully rely on the four corners of the Torrens title, since his or her claim to the property is subject to any subsequent claims that may be registered on the title prior to the buyer's registration of his or her claim. The protection accorded to such purchaser under Sec. 44 is watered down from that intended by the statute; the indefeasibility of titles under PD 1529 is invariably diminished. The Legislature could not have intended such an interpretation.

¹⁷³ 749 Phil. 970 (2014).

¹⁷⁴ *Id.* at 983-984.

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Our jurisprudence on double sales, which is governed by Article 1544 of the Civil Code, also upholds the principle of *primus tempore, potior jure* (first in time, stronger in right). While Art. 1544's application is limited to cases involving double sales, registration contemplated under this provision has been held to refer to registration under Act No. 496 Land Registration Act (now PD 1529) which considers the act of registration as the operative act that binds the land.¹⁷⁵ Under this provision, as between two buyers of immovable property, ownership shall belong to the one who first registers the conveyance in good faith:

Art. 1544. If the same thing should have been sold to different vendees, the ownership shall be transferred to the person who may have first taken possession thereof in good faith, if it should be movable property.

Should it be immovable property, the ownership shall belong to the person acquiring it who in good faith first recorded it in the Registry of Property.

Should there be no inscription, the ownership shall pertain to the person who in good faith was first in the possession; and, in the absence thereof, to the person who presents the oldest title, provided there is good faith. (1473)

In applying Art. 1544 of the Civil Code, the Court in *Uraca v. Court of Appeals*,¹⁷⁶ explained:

Under the foregoing, the prior registration of the disputed property by the second buyer does not by itself confer ownership or a better right over the property. Article 1544 requires that such registration must be coupled with good faith. Jurisprudence teaches us that “(t)he governing principle is *primus tempore, potior jure* (first in time, stronger in right). Knowledge gained by the first buyer of the second sale cannot defeat the first buyer's rights except where the second buyer registers in good faith the second sale ahead of the first, as provided by the Civil Code. Such knowledge of the first buyer does not bar her [or him] from availing of her [or his] rights under the law, among them, to register first her [or his] purchase as against the second buyer. **But in converso, knowledge gained by the second buyer of the first sale defeats his [or her] rights even if he [or she] is first to register the second sale, since such knowledge taints his [or her] prior registration with bad faith. This is the price exacted by Article 1544 of the Civil Code for the second buyer being able to displace the first buyer; that before the second buyer can obtain priority over the first, he must show that he [or she] acted in good faith throughout (*i.e.* in ignorance of the first sale and of the first buyer's rights) — from the time of acquisition until the title is transferred to him [or her] by registration or failing registration, by delivery of possession.”¹⁷⁷ (Emphasis supplied)**

In line with the foregoing, the Court finds that realigning the parameters of ‘good faith’ and harmonizing the foregoing with the tenets and purpose of

¹⁷⁵ *Spouses Abrigo v. De Vera*, 476 Phil. 641, 657 (2004), citing Vitug, *Compendium of Civil Law and Jurisprudence* (1993), pp. 604.

¹⁷⁶ 344 Phil. 253 (1997).

¹⁷⁷ *Id.* at 265.

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the Torrens system by *broadening* the standard of good faith and diligence reposed upon the purchaser until registration of the sale on the title will breathe life to the mandate of PD 1529 and would hold true to the very purpose and spirit of our Torrens system. As keenly observed by Justice Japar B. Dimaampao:

Inevitably, such proposed precept will give teeth to the two-fold purpose of the Torrens system in our jurisdiction – *one*, guarantee the integrity of land titles; and *two*, protect their indefeasibility once the claim of ownership is established and recognized. **Indeed, broadening the standard of good faith, diligence, and prudence of buyers in that they should be continuing purchasers for value and in good faith up to the time that they register the sale on the title which is devoid of any annotation, breath[e]s life into the rationale for the rule on innocent purchasers for value which 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.”** In this accord, our case law will be more consistent with our rules on property registration, which gives 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.¹⁷⁸ (Emphasis Ours; citations omitted)

The Court is not unmindful that PD 1529 does not expressly require a purchaser to maintain good faith until registration. As worded, Sec. 44 grants the right to rely on the certificate of title and hold the same free from all encumbrances not noted on the title to “*every subsequent purchaser of registered land taking a certificate of title for value and in good faith,*” which may be interpreted to refer only to a purchaser of registered land, and not necessarily one who has registered the property. Nevertheless, if the statutory purpose is clear, the provisions of the law should be construed so as not to defeat but to carry out such end, for a statute derives its vitality from the purpose for which it is enacted and to construe it in a manner that disregards or defeats such purpose is to nullify or destroy the law.¹⁷⁹ Indeed, legislative intent or spirit is the controlling factor and guiding light in the application and interpretation of a statute; legislative intent is part and parcel of the law.¹⁸⁰

It is settled that in construing a statute, a construction which gives effect to the whole of the statute — its every word — must be pursued.¹⁸¹ Moreover, where a statute is susceptible of more than one interpretation, the court should adopt such reasonable and beneficial construction which will render the provision thereof operative and effective, as well as harmonious with each other.¹⁸² In the instant case, requiring a purchaser to be continuing innocent purchasers for value and in good faith until he or she has registered the conveyance would

¹⁷⁸ *Reflections* of Associate Justice Japar B. Dimaampao, p. 3.

¹⁷⁹ *Aquino v. Commission on Audit*, G.R. No. 227715, November 3, 2020, citing *Pilipinas Kao, Inc. v. Court of Appeals*, 423 Phil. 834, 858 (2001).

¹⁸⁰ *League of Cities of the Phils. v. Commission on Elections*, 592 Phil. 1, 66-67 (2008).

¹⁸¹ R.E. Agpalo, *Statutory Construction* 273 (6th edition, 2009). Citations omitted.

¹⁸² *Thunderbird Pilipinas Hotels and Resorts, Inc. v. Commissioner of Internal Revenue*, G.R. No. 211327, November 11, 2020, citing *PAGCOR v. Bureau of Internal Revenue*, 749 Phil. 1010, 1022-1026 (2014).

revitalize, rather than emasculate, the provisions of PD 1529 and the key purpose behind its enactment.

A buyer of registered land must remain in good faith from the time of purchase until he or she has duly registered the conveyance. Thus, MBTC may no longer be considered an innocent purchaser for value and in good faith since it was notified of the *lis pendens* prior to MBTC's registration of its purchase over the subject three lots.

In fine, to be considered an innocent purchaser for value under Sec. 44 of PD 1529, one must possess good faith from the time one acquires registered land until registration of the acquisition under their name. The buyer must purchase the property and register the deed of conveyance without notice that some other person has a right to, or interest in, such property and pay a full and fair price for the same, at the time of such purchase, or before he or she has notice of the claim or interest of some other persons in the property. The: (1) property must be bought for consideration, and (2) purchaser should have no knowledge or notice of adverse claim or interest *until registration*.¹⁸³ In the event a buyer of registered land who has yet to register the conveyance be made aware of any claim or interest of some other person in the property, or of any defect or restriction in the title of the seller or in his or her capacity to convey title, the buyer shall no longer be considered to be in good faith even if he or she subsequently registers the conveyance.

When shall the buyer be considered to have duly registered the conveyance? We find guidance in *Levin v. Bass*¹⁸⁴ and *Garcia v. Court of Appeals*,¹⁸⁵ which explain that a purchaser is deemed the registered owner once he or she: (a) files a duly notarized valid deed of sale, (b) the sale is entered into the day book, (c) the buyer surrenders or presents the owner's duplicate certificate of title covering the land sold, and (d) pays the registration fees:

In cases of *involuntary* registration, an entry thereof in the day book is a sufficient notice to all persons even if the owner's duplicate certificate of title is not presented to the register of deeds.

On the other hand, according to the said cases of *Levin vs. Bass*, in case of *voluntary* registration of documents an innocent purchaser for

¹⁸³ Cf. *Universal Robina Sugar Milling Corp. v. Heirs of Teves*, supra note 145 at 39 (2002).

¹⁸⁴ 91 Phil. 419, 436-437 (1952).

¹⁸⁵ Supra note 160, at 365-366.

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value of registered land becomes the registered owner, and, in contemplation of law the holder of a certificate of title, the moment he [or she] presents and files a duly notarized and valid deed of sale and the same is entered in the day book and at the same time he [or she] surrenders or presents the owner's duplicate certificate of title covering the land sold and pays the registration fees, because what remains to be done lies not within his [or her] power to perform. The register of deeds is duty bound to perform it.¹⁸⁶ (Emphasis supplied; citations omitted)

Indeed, "[n]either violence to, nor stretching of the meaning of, the law would be done, if we should hold that an innocent purchaser for value of registered land becomes the registered owner and in the contemplation of law the holder of a certificate thereof the moment he presents and files a duly notarized and lawful deed of sale and the same is entered on the day book and at the same time he [or she] surrenders or presents the owner's duplicate certificate of title to the property sold and pays the full amount of registration fees, because what remains to be done lies not within his [or her] power to perform. The Registrar of Deeds is in duty bound to perform it. We believe that is a reasonable and practical interpretation of the law under consideration - a construction which would lead to no inconsistency and injustice."¹⁸⁷

Once a buyer complies with the foregoing requisites, the buyer of registered land may claim the status of an innocent purchaser for value and in good faith, who is vested with the right to rely on the face on the *Torrens* title without inquiring further and to hold the same free from liens and encumbrances not noted on the title or as otherwise provided under the law, as a defense against any action questioning his or her title.¹⁸⁸ "The purchaser acquires such rights and interest as they appear in the certificate of title, unaffected by any prior lien or encumbrance not noted therein. The purchaser is not required to explore farther than what the *Torrens* title, upon its face, indicates."¹⁸⁹

However, should the buyer fail to comply with the foregoing requisites, the buyer must show that he or she exercised reasonable precaution by inquiring beyond the title. The buyer is placed on notice and obliged to exercise a higher degree of diligence by scrutinizing the certificate of title and examining all factual circumstances in order to determine the seller's title and capacity to transfer any interest in the property.¹⁹⁰

Applying the foregoing precepts, even assuming *arguendo* that MBTC remained in good faith at the time of the purchase, it failed to maintain such status until registration. It is observed that MBTC belatedly registered the Deed of Absolute Sale dated January 31, 1994 when TCTs 185022, 185023, and

¹⁸⁶ Id.

¹⁸⁷ *Levin v. Bass*, supra note 185, at 438.

¹⁸⁸ *Bautista v. Silva*, supra note 123, at 638.

¹⁸⁹ *Spouses Abrigo v. De Vera*, supra note 176, at 657.

¹⁹⁰ See *Bautista v. Silva*, supra note 123, at 639-640.

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185024 already contained a Notice of *Lis Pendens*, i.e., Civil Case No. 94-751, which was duly filed and registered earlier on February 23, 1994 by petitioners.

Thus, when AFRDI and MBTC executed the Deed of Absolute Sale dated January 31, 1994 without it having registered with the Register of Deeds, the said deed is considered valid but only as between AFRDI and MBTC. In so far as petitioners and the public are concerned, they cannot be bound by such sale prior to its registration, or be expected to have knowledge or notice of the same.

On the other hand, petitioners' institution of Civil Case No. 94-751 to claim ownership and demand cancellation of AFRDI's titles, and petitioners' subsequent annotation of a Notice of *Lis Pendens* on the titles before the Register of Deeds on February 23, 1994, served as a notice to the general public, including MBTC, that the subject property is involved in a litigation. Even with the subsequent transfer of titles from AFRDI to MBTC on June 15, 1994, i.e., TCTs 195231, 195232, and 195233, MBTC cannot deny that it was duly notified of the pendency of Civil Case No. 94-751.

In *Heirs of Lopez, Sr. v. Enriquez*,¹⁹¹ We elucidated on the definition, purpose and effect of a notice of *lis pendens*, thus:

Lis pendens literally means a pending suit. The doctrine of lis pendens refers to the jurisdiction, power or control which a court acquires over property involved in a suit, pending the continuance of the action, and until final judgment.

The purposes of lis pendens are (1) to protect the rights of the party causing the registration of the lis pendens, and (2) to advise third persons who purchase or contract on the subject property that they do so at their peril and subject to the result of the pending litigation.

The filing of a notice of lis pendens has a two-fold effect. First, it keeps the subject matter of the litigation within the power of the court until the entry of the final judgment to prevent the defeat of the final judgment by successive alienations. Second, it binds a purchaser, bona fide or not, of the land subject of the litigation to the judgment or decree that the court will promulgate subsequently. However, the filing of a notice of lis pendens does not create a right or lien that previously did not exist.

Without a notice of lis pendens, a third party who acquires the property after relying only on the certificate of title is a purchaser in good faith. Against such third party, the supposed rights of a litigant cannot prevail, because the former is not bound by the property owner's undertakings not annotated in the transfer certificate of title. Thus, we have consistently held that —

The notice of lis pendens x x x is ordinarily recorded without the intervention of the court where the action is pending. The notice is but an incident in an action, an extrajudicial one, to be sure. It does not affect the merits thereof. It is intended merely to

¹⁹¹ 490 Phil. 74 (2005).

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*constructively advise, or warn, all people who deal with the property that they so deal with it at their own risk, and whatever rights they may acquire in the property in any voluntary transaction are subject to the results of the action, and may well be inferior and subordinate to those which may be finally determined and laid down therein. The cancellation of such a precautionary notice is therefore also a mere incident in the action, and may be ordered by the Court having jurisdiction of it at any given time. And its continuance or removal x x x is not contingent on the existence of a final judgment in the action, and ordinarily has no effect on the merits thereof.*¹⁹² (Citations omitted and italics not ours.)

Verily, although a Notice of *Lis Pendens* does not create a right or lien over the subject property, the same was carried over on MBTC's new titles when the latter subsequently registered its Deed of Absolute Sale dated January 31, 1994 on June 15, 1994. Thus, when MBTC registered the conveyance, it was aware of petitioners' claim over the subject properties as it was duly notified of a flaw in the title of its transferor AFRDI, *i.e.*, by virtue of the Notice of *Lis Pendens* dated February 23, 1994. The defense of indefeasibility of a Torrens title does not extend to a transferee who takes it with a notice of a flaw in the title. To be effective, the inscription in the registry must have been made in good faith.¹⁹³

Ultimately, MBTC failed to properly protect its interests in the subject three lots when it did not register the sale and/or facilitate the issuance of the certificate of title in its name diligently after the sale transaction. Atty. Villaruz's contention that he was busy with the registration of other real estate properties bought by MBTC in the provinces¹⁹⁴ is but a flimsy excuse for MBTC's negligence in protecting its rights. In fine, AFRDI and MBTC may not be considered an innocent purchaser for value and in good faith. Consequently, MBTC cannot claim ownership over the subject property as against petitioners.

Rights and obligations of the parties

Having arrived at the conclusion that AFRDI and MBTC are buyers in bad faith and that MBTC was charged with knowledge of the *Notice of Lis Pendens* dated February 23, 1994, MBTC cannot, therefore, claim ownership over petitioners' share, *i.e.*, 60% of the subject three lots. Since MBTC registered the deed of absolute sale dated January 31, 1994 with knowledge of the pendency of Civil Case No. 94-751 as per Notice of *Lis Pendens* dated February 23, 1994 involving the nullification of AFRDI's titles, MBTC merely holds or possesses the 60% portion of the subject property in trust for its lawful owner.

Nonetheless, We affirm the ruling of the courts *a quo* insofar as the reimbursement of the purchase price paid. However, instead of both Bernal and

¹⁹² Id. at 86-87.

¹⁹³ *Rufloe v. Burgos*, supra note 134, at 273.

¹⁹⁴ TSN, December 1, 1995, p. 8.

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AFRDI being ordered to pay petitioners, AFRDI should indemnify MBTC to the extent of 60% of the purchase price paid, *i.e.*, 60% of PHP 39,308,000.00 which corresponds to the share of petitioners in the subject three lots. The same shall earn legal interest of 12% per *annum* from the filing of MBTC's Cross Claim¹⁹⁵ on July 11, 1994 against AFRDI until June 30, 2013; and six percent (6%) per *annum* from July 1, 2013 until finality of the judgment.¹⁹⁶ The total amount of the foregoing shall earn interest at the rate of 6% from date of finality of this judgment until full payment. As to AFRDI's cross claim against Bernal, We cannot grant the same for its failure to appeal before this Court or even comment on the present petition.

To reiterate, the remaining 40% of PHP 39,308,000.00 which pertains to MSI's share shall stand and is final for its failure to appeal and pray for affirmative relief before this Court. In fine, MSI's share or 40% of the subject three lots shall remain with MBTC while 60% thereof shall be owned by petitioners subject to partition pursuant to the September 22, 1995 Decision of the RTC of Pasig City, Branch 158 in Civil Case No. 29872.

With the settlement of the ownership of the subject three lots, *i.e.* 40% to MBTC, and 60% to Florencia and Daphne, We come now to the issue of damages demanded by petitioners. MBTC, as AFRDI's successor-in-interest, is charged with the knowledge of petitioners' Notice of *Lis Pendens* and with the evidence on record showing the improvements made on the three lots¹⁹⁷ despite knowledge that the lots were subject of a pending litigation, MBTC is considered a builder in bad faith. "To be deemed a builder in good faith, it is essential that a person asserts title to the land on which he builds, *i.e.*, that he be a possessor in the concept of owner, and that he be unaware that there exists in his title or mode of acquisition any flaw which invalidates it."¹⁹⁸ Obviously, at the time MBTC became the registered owner of the subject three lots on June 15, 1994 and began constructing improvements thereon, it was well aware of the pendency of Civil Case No. 94-751 as per Notice of *Lis Pendens* dated February 23, 1994. It, therefore, took the risk that the outcome of Civil Case No. 94-751 may be adverse to it. As such, Articles 449, 450, 451, 452 and 546 of the Civil Code must be applied, thus:

Art. 449. He who builds, plants or sows in bad faith on the land of another, loses what is built, planted or sown without right of indemnity.

Art. 450. The owner of the land on which anything has been built, planted or sown in bad faith may demand the demolition of the work, or that the planting or sowing be removed, in order to replace things in their former condition at the expense of the person who built, planted or sowed; or he may compel the builder or planter to pay the price of the land, and the sower the proper rent.

¹⁹⁵ Records, Vol. II, pp. 506-510.

¹⁹⁶ *Federal Builders, Inc. v. Foundation Specialists, Inc.*, 742 Phil. 433, 449 (2014).

¹⁹⁷ Folder of Exhibits for the Plaintiff, Plaintiff-Intervenor, Defendant, Exh. EE.

¹⁹⁸ *Spouses Espinoza v. Spouses Mayandoc*, 812 Phil. 95, 102 (2017).

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Art. 451. In the cases of the two preceding articles, the landowner is entitled to damages from the builder, planter or sower.

x x x x

Art. 546. Necessary expenses shall be refunded to every possessor; but only the possessor in good faith may retain the thing until he has been reimbursed therefor.

Applying the foregoing, petitioners have the right to appropriate what has been built on its property, *i.e.* 60% of the subject three lots, without any obligation to pay indemnity therefor. Due to MBTC's bad faith, it forfeits what it has built on 60% of the subject three lots without any right to be paid indemnity. Moreover, in the alternative, petitioners may exercise either their rights under Arts. 450 and 451 of the Civil Code, namely: (a) to demand the removal or demolition of what has been built on 60% of the subject three lots at MBTC's expense; or (b) to compel MBTC to pay the price or value of the 60% portion thereof whether or not its value is considerably more than the value of the improvements.

The right to choose from among these three alternative rights lies with the petitioners and not MBTC. Petitioners prayed for the cancellation or nullification of AFRDI's titles and MBTC's titles over the subject three lots, and the reinstatement of BBI's titles, *i.e.* TCT Nos. S-68301, S-68302 and S-68303; and demanded MBTC to demolish and dismantle its buildings or structures erected thereon and remove the debris from the subject three lots and surrender possession thereof. However, due to the finality of Civil Case No. 29782, there is no rhyme or reason to reinstate BBI's titles because the distribution and/or partition of the subject three lots has already been settled by the RTC Pasig City, Branch 158, *i.e.* 60% to petitioners and 40% to MSI. Consequently, MBTC is obliged to vacate and surrender the possession and ownership of 60% portion of the subject three lots to petitioners, and to remove or demolish what has been built on said portion of the subject three lots at MBTC's expense.

However, MBTC shall be reimbursed the necessary expenses in the preservation but it cannot retain the 60% portion thereof pending the reimbursement of necessary expenses. "Necessary expenses are those made for the preservation of the land occupied,¹⁹⁹ or those without which the land would deteriorate or be lost. These may also include expenditures that augment the income of the land or those that are incurred for its cultivation, production, and upkeep."²⁰⁰ In this light, We find it proper to order the remand of this case to the trial court for the purpose of determining the amount of necessary expenses to be reimbursed to MBTC.

¹⁹⁹ *National Housing Authority v. Manila Seedling Bank Foundation, Inc.*, 787 Phil. 531, 539 (2016).

²⁰⁰ *Id.*

Amount of Damages

Article 451 of the Civil Code grants the petitioners the right to recover damages from a builder in bad faith. "While Article 451 does not provide the basis for damages, the amount thereof should reasonably correspond with the value of the properties lost or destroyed as a result of the occupation in bad faith, as well as the fruits from those properties that the landowner reasonably expected to obtain."²⁰¹

Petitioners prayed for the award of actual damages in the nature of a reasonable compensation or monthly rental for the use and occupation by MBTC of the subject three lots. However, Article 2199 of the Civil Code provides that actual damages must be duly proved. We are not unmindful of the fact that the subject three lots are situated in a commercial area in Makati City and that petitioners would have earned reasonable rental income if not for the fraudulent machinations employed by Bernal in transferring the titles of the property to her name which led to the eventual possession and occupation of MBTC. However, the amount prayed for by petitioners, *i.e.*, PHP 250,000.00 monthly rental, cannot be granted without any basis.

Nonetheless, We recognize the pecuniary loss suffered by petitioners who were deprived of the use of their property for a considerable number of years reckoned from the finality of the September 22, 1995 Decision rendered by RTC Pasig, Branch 158 in Civil Case No. 29872 approving petitioners and MSI's compromise agreement regarding the distribution and partition of the subject property, *i.e.*, 60% petitioners and 40% MSI, and that only the amount thereof cannot be ascertained. In addition, the present action, *i.e.*, Civil Case No. 94-751, for the declaration of nullity of AFRDI's titles from which MBTC derived its titles had been pending since the filing of petitioners' complaint on February 22, 1994.

Hence, We find it proper to award petitioners temperate damages in the amount of PHP 5,000,000.00 as reasonable compensation for the use and occupation of 60% of the subject three lots taking into account the value of the land, their location, use or purpose. As a builder in bad faith, MBTC is liable to pay petitioners temperate damages in the amount of PHP 5,000,000.00 for the use and occupation of 60% portion of the subject property owned by petitioners.

Furthermore, as a result of AFRDI and MBTC's bad faith and the negligent acts of Ison and Domingo in the cancellation of the Notice of *Lis Pendens* dated October 1, 1992 and affidavit of adverse claim dated August 31, 1992 on Bernal's titles, We sustain the award of moral damages in the amount of PHP 200,000.00. "Moral damages are meant to compensate and alleviate the physical suffering, mental anguish, fright, serious anxiety, besmirched reputation, wounded feelings, moral shock, social humiliation, and similar injuries unjustly

²⁰¹ *Princess Rachel Development Corp. v. Hillview Marketing Corp.*, G.R. No. 222482, June 2, 2020, 936 SCRA 124, 160.

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caused x x x. Moral damages are not punitive in nature and were never intended to enrich the claimant at the expense of the defendant.”²⁰² Although there is no hard-and-fast rule in determining a fair and reasonable amount of moral damages, we hold that the amount awarded by the trial court, *i.e.*, PHP 200,000.00 is commensurate to the loss or injury suffered by petitioners.

In addition, an award of exemplary damages is likewise in order. The requirements for an award of exemplary damages are: (1) they may be imposed by way of example in addition to compensatory damages, and only after the claimant’s right to them has been established; (2) they cannot be recovered as a matter of right, their determination depending upon the amount of compensatory damages that may be awarded to the claimant; and (3) the act must be accompanied by bad faith or done in a wanton, fraudulent, oppressive or malevolent manner.²⁰³

We hold that AFRDI and MBTC’s bad faith that resulted in the deprivation of petitioners’ right to lawfully use and possess their property for a considerable number of years made them liable for exemplary damages. MBTC as a builder in bad faith cannot deny the fact that it built on the subject property despite knowing that an unfavorable outcome may prejudice its possession of the subject three lots.

On AFRDI’s part, it cannot also refute its knowledge of the cancellation of petitioners’ affidavit of adverse claim dated August 31, 1992 when it was cancelled on the same day its deed of absolute sale dated April 23, 1993 was registered. Hence, We deem it proper to hold MBTC and AFRDI jointly and solidarily liable to pay petitioners the amount PHP 200,000.00 as exemplary damages.

Finally, We sustain the award of attorney’s fees in the amount of PHP 300,000.00 to both petitioners and MSI. The award of attorney’s fees lies within the discretion of the court and depends upon the circumstances of each case.²⁰⁴ Obviously, petitioners were compelled to litigate for the protection of their rights and interests, and for the recovery of damages as a result of AFRDI and MBTC’s bad faith, and Ison and Domingo’s negligent acts. In fact, petitioners and the subject property were involved in three separate civil actions that mainly dealt with nullification of titles of the subject property. Thus, We uphold the award of PHP 150,000.00 attorney’s fees as petitioners’ share in the attorney’s fees against respondents AFRDI and MBTC.

As to Chan and Ranullo’s respective liabilities, petitioners failed to prove by clear and convincing evidence that they are guilty of gross negligence or bad

²⁰² *Go v. Cordero*, 634 Phil. 69, 103 (2010).

²⁰³ *Id.*

²⁰⁴ *Pleasantville Development Corp. v. Court of Appeals*, 323 Phil. 12, 19 (1996).

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faith. Without such evidence, We cannot hold Chan and Ranullo personally and solidarily liable with MBTC and AFRDI's liabilities, respectively.

Notably, Bernal's fraudulent act of transferring BBI's titles over the subject three lots to her name by virtue of a falsified December 18, 1985 Decision allegedly rendered by CFI Pasig, Branch 19 in Civil Case No. 29872, and an absolute deed of sale dated December 18, 1985, had already been passed upon by RTC Makati City, Branch 61 in Civil Case No. 92-2831 which ordered Bernal to pay petitioners the amount PHP 300,000.00 as exemplary damages, PHP 500,000.00 as moral damages, PHP 200,000.00 as attorney's fees and cost of suit. Hence, the issue of Bernal's liability to petitioners is considered *res judicata* that was finally settled in Civil Case No. 29872. She cannot, therefore, be obliged to indemnify petitioners in the present case for the same fraudulent act.

The temperate damages, moral damages, exemplary damages and attorney's fees shall earn legal interest at the rate of six percent (6%) per *annum* from the date of finality of this Decision until its full payment.²⁰⁵

WHEREFORE, the petition is **GRANTED**. The March 15, 2013 Decision and October 8, 2013 Resolution of the Court of Appeals in CA-G.R. CV No. 77595 are **REVERSED** and **SET ASIDE** insofar as the rights of petitioners Florencia Duenas and Daphne Duenas-Montefalcon over the subject three lots are concerned.

Accordingly, petitioners Florencia Duenas and Daphne Duenas-Montefalcon are entitled to the recovery and possession of 60% of the subject three lots. Thus, Transfer Certificates of Title Nos. 195231, 195232, and 195233 in the name of Metropolitan Bank and Trust Company, and Transfer Certificates of Title Nos. 185022, 185023, and 185024 in the name of AF Realty Development, Inc. are declared **NULL** and **VOID**. Respondent Metropolitan Bank and Trust and Company and all persons claiming rights under it are hereby **ORDERED**, upon finality of this Decision without awaiting the resolution of the matter of necessary expenses by the trial court, to (a) immediately **VACATE** 60% of the subject property and **DELIVER** its peaceful possession to petitioners; and (b) to remove or demolish what has been built on 60% portion of the subject three lots at its expense.

This case is **REMANDED** to the court of origin for the determination of the necessary expenses of preservation of the 60% portion of the land, if any, incurred by respondent Metropolitan Bank and Trust Company while it is in the possession of the subject property, which expenses shall be reimbursed to Metropolitan Bank and Trust Company by petitioners Florencia Duenas and Daphne Duenas-Montefalcon.

²⁰⁵ *Nacar v. Gallery Frames*, 716 Phil. 267, 283 (2013).

The Register of Deeds, Makati City is **ORDERED** to cancel: (a) Transfer Certificates of Title Nos. 195231, 195232, and 195233 in the name of Metropolitan Bank and Trust Company; (b) Transfer Certificates of Title Nos. 185022, 185023, and 185024 in the name of AF Realty Development, Inc.; and (c) Transfer Certificates of Title Nos. S-68301, S-68302 and S-68303 in the name of Bellever Brothers, Inc. Accordingly, the Register of Deeds, Makati City shall issue new transfer certificates of titles in the names of petitioners Florencia Duenas and Daphne Duenas-Montefalcon, and Metropolitan Bank and Trust Company subject to the partition of 60% and 40%, respectively, agreed upon by petitioner Florencia Duenas and Manotoc Securities, Inc. and approved by the Regional Trial Court of Pasig City, Branch 158 in its September 22, 1995 Decision in Civil Case No. 29872.

In addition, respondent Metropolitan Bank and Trust Company is **ORDERED** to pay petitioners Florencia Duenas and Daphne Duenas-Montefalcon the amount of PHP 5,000,000.00 as temperate damages.

Respondents Metropolitan Bank and Trust Company, AF Realty Development, Inc., Penelope Ison, and Inocencio Domingo are **ORDERED** to jointly and severally pay petitioners Florencia Duenas and Daphne Duenas-Montefalcon PHP 200,000.00 as moral damages.

Respondents Metropolitan Bank and Trust Company and AF Realty Development, Inc. are **ORDERED** to jointly and severally pay petitioners Florencia Duenas and Daphne Duenas-Montefalcon PHP 200,000.00 as exemplary damages; and PHP 150,000.00 as attorney's fees.

The above monetary awards, *i.e.* temperate damages, moral damages, exemplary damages, and attorney's fees, shall earn interest at the rate of six percent (6%) per *annum* from the finality of this Decision until full payment thereof.

Lastly, respondent AF Realty Development, Inc. is **ORDERED** to reimburse respondent Metropolitan Bank and Trust Company the amount of 60% of PHP 39,308,000.00, the purchase price paid, with legal interest of 12% per *annum* from the date of filing of cross claim on July 11, 1994 until June 30, 2013, and six percent (6%) per *annum* from July 1, 2013 until finality of this Decision. The total amount of the foregoing shall earn interest at the rate of six percent (6%) from date of finality of this Decision until full payment.


SO ORDERED.


RAMON PAUL L. HERNANDO
Associate Justice

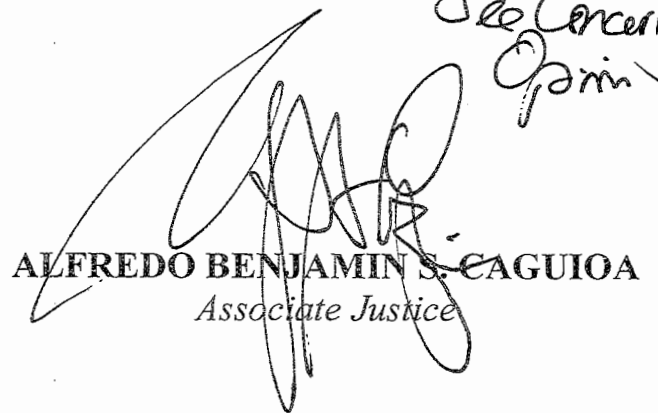
WE CONCUR:


ALEXANDER G. GESMUNDO
Chief Justice

See separate opinion


MARVIC M. V. F. LEONEN
Associate Justice

See Concurring Opinion


ALFREDO BENJAMIN S. CAGUIOA
Associate Justice

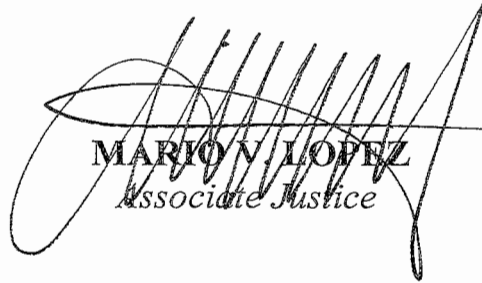
Pls. see concurrence


AMY C. LAZARO-JAVIER
Associate Justice

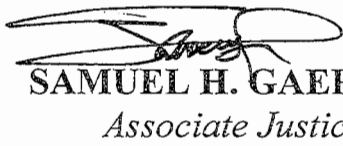

HENRI JEAN PAUL B. INTING
Associate Justice



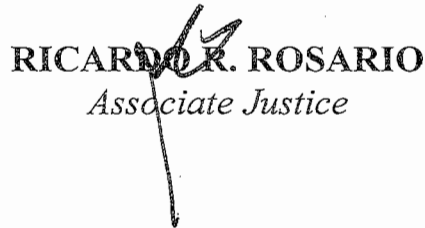
RODIL V. ZALAMEDA
Associate Justice



MARIO V. LOPEZ
Associate Justice



SAMUEL H. GAERLAN
Associate Justice



RICARDO R. ROSARIO
Associate Justice



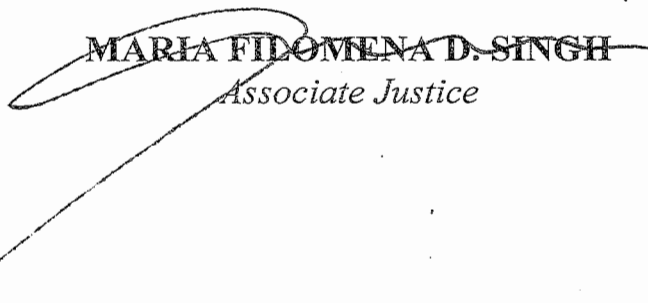
JHOSEP Y. LOPEZ
Associate Justice

On official leave.
JAPAR B. DIMAAMPAO
Associate Justice

On official business.
JOSE MIDAS P. MARQUEZ
Associate Justice



ANTONIO T. KHO, JR.
Associate Justice



MARIA FILOMENA D. SINGH
Associate Justice

CERTIFICATION

Pursuant to Section 13, Article VIII of the Constitution, I certify that the conclusions in the above Decision were reached in consultation before the case was assigned to the writer of the opinion of the Court.


ALEXANDER G. GESMUNDO
Chief Justice