

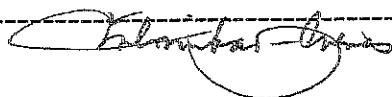
EN BANC

G.R. No. 209463 – FLORENCIA H. DUENAS and DAPHNE DUENAS-MONTEFALCON, *petitioners*, v. METROPOLITAN BANK AND TRUST COMPANY and ELVIRA ONG CHAN; AF REALTY DEVELOPMENT, INC. and ZENAIDA R. RANULLO, ADELAIDA T. BERNAL; and PENELOPE ISON and INOCENCIO DOMINGO OF THE REGISTER OF DEEDS OF MAKATI, CITY, *respondents*.

Promulgated:

November 29, 2022

X-----X



CONCURRING AND DISSENTING OPINION

LEONEN, J.:

I concur in the result.

However, I find that Metropolitan Bank and Trust Company (MBTC) was not in good faith.

I

Involved in this case are three parcels of land in Makati City with an aggregate area of 1,411 square meters, which is the subject of successive transfers ultimately leading to the hands of MBTC.

The properties were originally registered in the name of Dolores Egido Vda. De Sola (Dolores) under Transfer Certificate of Title (TCT) Nos. T-79864, T-79865 and T-79866.

On May 22, 1978, the certificates of title under Dolores' name were cancelled, and in lieu thereof, TCT Nos. S-68301, S-68302, and S-68303 under the name of Bellever Brothers Inc. (Bellever Brothers) were issued. As security for the loan it contracted, Bellever Brothers later mortgaged the lots to Manotoc Securities Inc. (Manotoc Securities). The mortgage was annotated as Entry No. 83066 in Bellever Brothers' certificates of title.

On June 12, 1978, Dolores filed a complaint before the Court of First Instance of Pasig City, Branch 19 against Bellever Brothers and Manotoc Securities docketed as Civil Case No. 29782 for the declaration of nullity of

the relevant sale and the cancellation of Bellever Brothers' certificates of title.¹

Dolores also caused the annotation of a notice of *lis pendens* under Entry No. 84647. When Dolores died during the pendency of the case, she was substituted by her daughter, Carmen Egido (Carmen).

On September 18, 1981, the Writ of Preliminary Injunction issued by the Court of First Instance, Branch 19 was also annotated on the certificates of title of the Bellever Brothers' under Entry No. 47764.

On July 19, 1989, the Court of First Instance temporarily archived Civil Case No. 29782. Carmen initially authorized Florencia Duenas (Florencia)² to enter into a settlement of Civil Case No. 29782. Later, however, she assigned all her rights over the three parcels of land to Florencia.

Meanwhile, Manotoc Securities was dissolved and was placed under receivership.

Florencia submitted a letter proposal to the Securities and Exchange Commission for the amicable settlement of Civil Case No. 29782. While Florencia and Manotoc Securities' receiver were negotiating a compromise agreement, they found out that the Bellever Brothers' certificates of title were cancelled by Mila Flores (Flores) of the Register of Deeds of Makati City.

The cancellation of the certificates of title of the Bellever Brother's was brought about by the fraudulent scheme perpetrated by Adelaida Bernal (Bernal) and Bellever Brothers.

Bernal, acting as a supposed representative of Manotoc Securities, executed an affidavit of loss of the certificates of title of the Bellever Brothers and filed a petition for the issuance of new duplicate copies before the Regional Trial Court of Makati City, Branch 135. Eventually, Branch 135 released an Order directing the Register of Deeds of Makati City to issue an owner's duplicate copy of the certificates of title of the Bellever Brothers to replace the ones that were purportedly lost.

Bernal and Bellever Brothers subsequently presented a falsified Decision dated December 18, 1985 allegedly issued by the Court of First Instance, Pasig City Branch 19, in Civil Case No. 29782, as well as an absolute deed of sale dated December 18, 1985 to cancel the annotations on

¹ Ponencia, p. 2.

² Id.

the certificates of title of the Bellever Brothers and to cause the issuance of new titles over the properties.

On March 19, 1992, the certificates of title of the Bellever Brothers were transferred in Bernal's name under TCT Nos. 178934, 178935, and 178936.³

Knowing that the Court of First Instance, Pasig City Branch 19 did not render any decision in Civil Case No. 29782 and that the case was archived per certification issued by the Clerk of Court, Daniel and Florencia Duenas (the Duenas Spouses) caused the annotation of their affidavit of adverse claim dated August 31, 1992 under Entry No. 48918 on Bernal's certificates of title.

The Duenas Spouses also commenced Civil Case No. 92-2831 before the Regional Trial Court of Makati City, Branch 61 for the declaration of nullity of Bernal's certificates of title and the absolute deed of sale dated December 18, 1985. The annotation of notice of *lis pendens* under Entry No. 50908 followed. Nevertheless, the annotation was cancelled pursuant to the Orders of Branch 61 dated January 25, 1993 and February 24, 1993.

Aggrieved, the Duenas Spouses filed a petition for *certiorari* before the Court of Appeals.

On March 11, 1993, the Court of Appeals temporarily enjoined the implementation of the assailed Orders of Branch 61. On March 12, 1993, Branch 61 received the Resolution of the Court of Appeals.

On October 29, 1993, the Court of Appeals finally ruled in favor of the Duenas Spouses, thereby setting aside the trial court's assailed Orders in Civil Case No. 92-2831. The Court of Appeals' Decision became final and executory on November 29, 1993.

Nonetheless, despite the Court of Appeals' favorable ruling and prior temporary restraining order, the Duenas Spouses claimed that Branch 61 still issued a certificate of finality of its January 25, 1993 Order which cancelled the notice of *lis pendens* under Entry No. 50908. As a result, Penelope Ison (Ison) of the Register of Deeds of Makati City cancelled the said annotation on the certificates of title of Bernal.⁴

On April 23, 1993, Bernal executed an absolute deed of sale over the lots in favor of AF Realty Development Inc. (AF Realty). On April 28, 1993, Inocencio Domingo (Domingo) of the Makati City Register of Deeds

³ Id. at 3.

⁴ Id. at 3-4.

cancelled the certificates of title of Bernal, including the annotation of the affidavit of adverse claim of the Duenas Spouses therein, and consequently issued a new set of titles under AF Realty's name.

On February 22, 1994, the Duenas Spouses commenced Civil Case No. 94-751 for the declaration of nullity of AF Realty's titles and the accompanying absolute deed of sale in AF Realty's favor, which also included claims for damages against Bernal, AF Realty, Ison, and Domingo before the Regional Trial Court of Makati City, Branch 60. On February 23, 1994, the Duenas Spouses caused the annotation of a notice of *lis pendens* under Entry No. 81678 on the certificates of title of AF Realty.

In the interim, however, AF Realty sold the lots to MBTC on January 31, 1994. The Duenas Spouses only discovered the sale on June 8, 1994. Thus, they filed an amended complaint in Civil Case No. 94-751, impleading MBTC and its executive vice president as additional defendants.

On June 15, 1994, a new set of certificates of title under MBTC's name was issued.⁵

MBTC insisted that it was a purchaser in good faith and for value. Allegedly, the certificates of title under AF Realty's name were bereft of any lien or encumbrance during the time of sale on January 31, 1994. Besides, the notice of *lis pendens* was only annotated in the certificates of title of AF Realty's on February 23, 1994. Accordingly, the bank had every right to depend on the titles presented and was not obligated to look beyond it to ascertain any defect in its issuance.⁶

On January 15, 2002, Branch 60 ruled in favor of the Duenas Spouses in Civil Case No. 94-751. As to the trial court, Bernal resorted to a fraudulent scheme that unlawfully deprived Manotoc Securities and the Duenas Spouses of their interest in the properties. Nevertheless, the lots were already conveyed to MBTC, which, on the other hand, bought the three parcels of land free from liens and encumbrances. Therefore, the Duenas Spouses and Manotoc Securities' proper recourse is to go against the party responsible for the fraud, and those, who, by their negligence, allowed the title to pass into the hands of innocent purchasers as provided under Section 55 of Act No. 496, now Section 53 of Presidential Decree No. 1529.

On April 23, 2002, Branch 60 partially granted the Duenas Spouses and Manotoc Securities' motion for reconsideration only in terms of the amount of damages awarded.⁷

⁵ Id. at 5.

⁶ Id. at 6.

⁷ Id. at 8-10.

On May 15, 2013, the Court of Appeals affirmed the trial court's decision *in toto* and upheld that MBTC is a purchaser in good faith. Further, the sale between MBTC and AF Realty had already been consummated when the notice of *lis pendens* was annotated in the relevant certificates of title.

The Court of Appeals also explained that even a fraudulent document may become the root of valid title if the property has already been conveyed from the owner's name to that of the forger. Thus, a person dealing with a registered property in good faith obtains a valid title from the forger and will therefore be protected under the Torrens System.⁸

During the pendency of the appeal, Daniel Duenas died and was substituted by his heirs, Florencia and Daphne Duenas-Montefalcon (Montefalcon). On October 8, 2013, the Court of Appeals denied Florencia and Montefalcon's motion for reconsideration.

The *ponencia* granted the Petition and set aside the assailed rulings⁹ of the Court of Appeals on account of the following considerations:

First, AF Realty is not a purchaser in good faith in light of the existing annotation of the affidavit of adverse claim of the Duenas Spouses in Bernal's certificates of title at the time of sale on April 23, 1993. The cancellation of said annotation only occurred when AF Realty registered the deed of absolute sale in its favor with the Register of Deeds on April 28, 1993;¹⁰ and

Second, MBTC is an innocent purchaser for value and has been able to acquire the properties free from any lien or encumbrance at the time of sale on January 31, 1994.

Even so, as between MBTC's January 31, 1994 deed of absolute sale belatedly registered on June 15, 1994 and petitioners' *lis pendens* annotated on February 23, 1994, petitioners' right over the lots precedes.¹¹

Ultimately, the *ponencia* declared petitioners' entitlement to recover and possess their just share of the properties. The certificates of title under AF Realty and MBTC's names were declared null and void. Thus, the Makati City Register of Deeds was ordered to issue new certificates of title under the name of petitioners.¹²

⁸ Id. at 10-11.

⁹ Id. at 44.

¹⁰ Id. at 23-25.

¹¹ Id. at 26.

¹² Id. at 44-45.

I concur in the result.

Nevertheless, in my view, MBTC is not an innocent purchaser in good faith and for value. There are relevant indications that should have impelled it to investigate further on the lots, which are the subject of prior successive transfers, each conveyance having been consistently and repeatedly assailed by petitioners and their predecessors.

More telling that as a bank and financial institution, MBTC cannot just make much of a bare claim that it can securely rely on the clean certificates of title of AF Realty.¹³ Being engaged in a business imbued with public interest, a higher degree of prudence and diligence is asked of it when dealing with real properties.

II

It is the very intent of the Torrens System of registration to quiet title to land and to put an end to any inquiry as to the validity of a title, save for claims already annotated during registration or which may occur consequently to it.¹⁴ Thus, a person dealing with a registered property may securely rely on the correctness of the title, and the law will not, in any way, compel them to go beyond it to verify the status or condition of the property. Otherwise stated, when a certificate of title is clean and bereft of any encumbrance, a buyer holds every right to rely on its correctness in deciding whether to ensue with the purchase. As such, they are considered innocent purchasers in good faith and for value.¹⁵

Presidential Decree No. 1529, or the Property Registration Decree, seeks to reinforce the Torrens System¹⁶ hence, Section 44 of which recognizes the right afforded to innocent purchasers in good faith and for value:

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.

¹³ Id. at 6 and 15.

¹⁴ *Cruz v. Court of Appeals* 346 Phil. 506, 511 (1997) [Per J. Bellosillo, First Division].

¹⁵ *Aguirre v. Bombaes* (2021), G.R. No. 233681 [Per J. Inting, Third Division].

¹⁶ See *Second Whereas Clause* of Presidential Decree No. 1529.

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.¹⁷ (Emphasis supplied)

The protection afforded to innocent purchasers for value is essential to maintain the conclusiveness and efficacy of a certificate of title, which is warranted under the Torrens System.¹⁸ Where innocent third persons relying on the correctness of the title attain rights over the property subject of the sale, the court cannot simply discount them and direct the absolute cancellation of their titles.¹⁹ An innocent purchaser in good faith and for value possesses an indefeasible title to the registered land.²⁰

An innocent purchaser in good faith and for value embraces:

... [O]ne 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.²¹ (Citations omitted)

On the contrary, a person is not an innocent purchaser in good faith and for value if they actually knew of a flaw or the vendor's lack of title on the property, or anything on the title that would reasonably cause doubt or suspicion, and that they failed to investigate or ensue with the necessary measures to guarantee that there exists no cloud on the ownership or title to the property involved in the sale.²²

It bears stressing that the sincerity of intention that comprises good faith entails a lack of knowledge of circumstances that "ought to put a prudent person on inquiry."²³ Good faith encompasses a possessor's belief that the person from whom they got the property is the true owner who, on

¹⁷ *Leong v. See*, 749 Phil. 314, 324 (2014) [Per J. Leonen, Second Division].

¹⁸ *Rabaja Ranch Development Corp. v. AFP Retirement and Separation Benefits System*, 609 Phil. 660, 675 (2009) [Per J. Nachura, Third Division].

¹⁹ *Cruz v. Court of Appeals* 346 Phil. 506, 511 (1997) [Per J. Bellosillo, First Division].

²⁰ *Aguirre v. Bombaes*, G.R. No. 233681, February 3, 2021 <<https://elibrary.judiciary.gov.ph/thebookshelf/showdocs/1/67181>> [Per J. Inting, Third Division].

²¹ *Id.*

²² *Id.*

²³ *Spouses Domingo v. Reed*, 513 Phil. 339, 353 (2005) [Per J. Panganiban, Third Division].

the other hand, could validly transfer their title. While good faith is always the presumption in the absence of contrary evidence, this nevertheless demands a well-founded belief.²⁴

As follows, there are exceptions to the general rule that a person dealing with registered land may safely rely on the issued certificate of title and is not compelled to go beyond it to ascertain the property's condition:

... (1.) when the party has actual knowledge of facts and circumstances that would impel a reasonably cautious man to make further inquiry; (2.) when the buyer has knowledge of a defect or the lack of title in his vendor; or (3.) *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.*²⁵ (Emphasis supplied)

An innocent purchaser for value "is deemed to include an innocent lessee, mortgagee, or other (beneficiary of an) encumbrance for value."²⁶ Banks, being engaged in a business imbued with public interest, cannot simply depend on the certificates of title in determining the status of properties subject to their dealings. Banks are supposed to employ a higher degree of care and prudence in their transactions than private individuals.²⁷

As to MBTC, it exercised due diligence in verifying the authenticity of AF Realty's certificates of title over the three parcels of land. Upon verification of its representative with the Register of Deeds of Makati City, the relevant certificates of title were allegedly found to be true and free from any defect:

MBTC claimed that it exerted due diligence in verifying the authenticity of TCT Nos. 185022, 185023 and 185024 with the Register of Deeds of Makati City based on the appraisal report and the testimony of Atty. Cris Villaruz (Atty. Villaruz), an MBTC employee who assisted in purchasing the subject three lots, and *testified that he personally went to the Register of Deeds of Makati City to verify that indeed TCT Nos. 185022, 185023 and 185024 are genuine and free from any lien or encumbrances.*

Atty. Villaruz testified that a certain department or group of MBTC was tasked to look into the genuineness of the titles of real properties MBTC intends to purchase. *He added that this department or group assured him verbally that TCT Nos. 185022, 185023 and 185024 were indeed authentic. In addition, MBTC also inspected the subject three lots and found them to be occupied by informal settlers who were later ejected*

²⁴ Id.

²⁵ *Calma v. Lachica, Jr.*, 821 Phil. 607, 620 (2017) [Per J. Tijam, First Division].

²⁶ *Spouses Macadangdang v. Spouses Martinez*, 490 Phil. 774, 781 (2005) [Per J. Corona, Third Division].

²⁷ *Ursal v. Court of Appeals*, 509 Phil. 628, 642 (2005) [Per J. Austria-Martinez, Second Division].

by [AF Realty] before the execution of the deed of absolute sale dated January 31, 1994.²⁸ (Emphasis supplied and citations omitted)

MBTC's assertions fail to convince.

In my view, the foregoing shows that MBTC failed to diligently inquire into the history and the origin of the certificates of title of its predecessor, AF Realty, before proceeding with the sale. While it is uncontested that there is no annotation of any adverse claim that would impel MBTC to inquire on the status of the property at the time of purchase, it cannot be gainsaid that, unlike a private individual, a higher degree of diligence is expected of it when it comes to its property dealings.

Although we cannot disregard that a representative from MBTC allegedly went to the Register of Deeds of Makati City to verify the authenticity of AF Realty's certificates of title, it should have been more elaborate on the manner and depth of inquiry it conducted before such government office. If only MBTC employed the higher degree of diligence required of it as a bank or financial institution, it would be highly improbable that it failed to discover that the property it intends to purchase from AF Realty has long been the subject of successive transfers, all of which were constantly being contested and assailed by petitioners and the latter's predecessors.

Furthermore, as found by the Court of Appeals, the MBTC representative found eight shanties of informal settlers on-site during ocular visit.²⁹ Regardless of whether these occupants were duly evicted before the execution of the relevant deed of sale, this, by itself, should have all the more alerted MBTC to conduct a thorough investigation of AF Realty's certificates of title, considering likewise that it will be paying it a substantial amount of PHP 39,308,000.00 in exchange for the property.³⁰

Worth stressing is the oft-repeated rule that "purchasers cannot close their eyes to known facts that should put a reasonable person on guard."³¹ They cannot eventually insist that they have acted in good faith, believing there was no flaw in the seller's certificates of title. Their mere denial to face up to that likelihood does not render them innocent purchasers for value if it later becomes obvious that the certificates of title were indeed flawed and that they should have discovered the same had they employed the necessary precaution asked of a prudent person in a similar situation.³²

²⁸ *Ponencia*, pp. 26-27.

²⁹ *Id.* at 11.

³⁰ *Id.* at 9.


³¹ *Spouses Domingo v. Reed*, 513 Phil. 339, 353 (2005) [Per J. Panganiban, Third Division].

³² *Id.* at 353-354.

All told, as a bank, MBTC fell short of the required diligence in dealing with the registered property subject of the sale. Therefore, I believe that MBTC is not an innocent purchaser in good faith and for value.


With the proffer that MBTC is not an innocent purchaser for value, it would be unnecessary to delve into whose right over the property precedes in light of MBTC's belated registration of the absolute deed of sale on June 15, 1994 in relation to petitioners' annotation of the notice of *lis pendens* on February 23, 1994.

ACCORDINGLY, I vote to GRANT the Petition.



MARVIC M.V.F. LEONEN
Senior Associate Justice

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