Republic of the Philippines
Supreme Court
Manila

SECOND DIVISION

PHILIPPINE CHARITY SWEEPSTAKES OFFICE (PCSO), **Petitioner,**	**G.R. No. 173171**
	Present:
- versus -	CARPIO, *J.*, *Chairperson,* BRION, PEREZ, SERENO, and REYES, *JJ.*
NEW DAGUPAN METRO GAS CORPORATION, PURITA E. PERALTA and PATRICIA P. GALANG, **Respondents.**	Promulgated: JUL 11 2012

x----------x

DECISION

REYES, *J.*:

This is a petition for review under Rule 45 of the Rules of Court, assailing the Decision[1] dated September 29, 2005 and Resolution[2] dated June 9, 2006 of the Court of Appeals (CA) in CA-G.R. CV No. 59590.

In the assailed Decision, the CA affirmed the Decision[3] dated January 28, 1998 of the Regional Trial Court (RTC), Branch 42 of Dagupan City in Civil Case No. 94-00200-D, ordering petitioner Philippine Charity

---

1 Penned by Associate Justice Amelita G. Tolentino, with Associate Justices Danilo B. Pine and Vicente S.E. Veloso, concurring; *rollo*, pp. 8-22.

2 Id. at 24-25. Associate Justice Danilo B. Pine was replaced by Associate Justice Andres B. Reyes, Jr.

3 Id. at 116-131.

Sweepstakes Office (PCSO) to surrender the owner's duplicate of Transfer Certificate of Title (TCT) No. 52135 to the Register of Deeds of Dagupan City for cancellation and issuance of a new certificate of title in the name of respondent New Dagupan Metro Gas Corporation (New Dagupan).

In its Resolution[4] dated June 9, 2006, the CA denied PCSO's motion for reconsideration.

The Factual Antecedents

Respondent Purita E. Peralta (Peralta) is the registered owner of a parcel of land located at Bonuan Blue Beach Subdivision, Dagupan City under TCT No. 52135. On March 8, 1989, a real estate mortgage was constituted over such property in favor of PCSO to secure the payment of the sweepstakes tickets purchased by one of its provincial distributors, Patricia P. Galang (Galang). The salient provisions of the Deed of Undertaking with First Real Estate Mortgage,[5] where Galang, PCSO and Peralta were respectively designated as "principal", "mortgagee" and "mortgagor", are as follows:

> WHEREAS, the PRINCIPAL acknowledges that he/she has an outstanding and unpaid account with the MORTGAGEE in the amount of FOUR HUNDRED FIFTY THOUSAND (₱450,000.00), representing [the] balance of his/her accountabilities for all draws;
>
> WHEREAS, the PRINCIPAL agrees to liquidate or pay said account ten (10) days after each draw with interest at the rate of 14% per annum.
>
> x x x x
>
> The PRINCIPAL shall settle or pay his/her account of FOUR HUNDRED FIFTY THOUSAND PESOS (₱450,000.00) PESOS with the MORTGAGEE, provided that the said balance shall bear interest thereon at the rate of 14% per annum;
>
> To secure the faithful compliance and as security to the obligation of the PRINCIPAL stated in the next preceding paragraph hereof, the MORTGAGOR hereby convey unto and in favor of the MORTGAGEE,

---

4 Supra note 2.

5 *Rollo*, pp. 79-84.

> its successor and assigns by way of its first real estate mortgage, a parcel/s of land together with all the improvements now or hereafter existing thereon located at BOQUIG, DAGUPAN CITY, covered by TCT No. 52135, of the Register of Deeds of DAGUPAN CITY, and more particularly described as follows:
>
> x x x x
>
> 4. During the lifetime of this mortgage, the MORTGAGOR shall not alienate, sell, or in any manner dispose of or encumber the above-mentioned property, withou[t] the prior written consent of the MORTGAGEE;
>
> x x x x
>
> 15. Upon payment of the principal amount together with interest and other expenses legally incurred by the MORTGAGEE, the above undertaking is considered terminated.[6]

On July 31, 1990, Peralta sold, under a conditional sale, the subject property to New Dagupan, the conveyance to be absolute upon the latter's full payment of the price of ₱800,000.00. New Dagupan obliged to pay Peralta ₱200,000.00 upon the execution of the corresponding deed and the balance of ₱600,000.00 by monthly instalments of ₱70,000.00, the first instalment falling due on August 31, 1990. Peralta showed to New Dagupan a photocopy of TCT No. 52135, which bore no liens and encumbrances, and undertook to deliver the owner's duplicate within three (3) months from the execution of the contract.[7]

New Dagupan withheld payment of the last instalment, which was intended to cover the payment of the capital gains tax, in view of Peralta's failure to deliver the owner's duplicate of TCT No. 52135 and to execute a deed of absolute sale in its favor. Further, New Dagupan, through its President, Julian Ong Cuña (Cuña), executed an affidavit of adverse claim, which was annotated on TCT No. 52135 on October 1, 1991 as Entry No. 14826.[8]

---

6 Id. at 79-83.
7 Id. at 9.
8 Id. at 277.

In view of Peralta's continued failure to deliver a deed of absolute sale and the owner's duplicate of the title, New Dagupan filed a complaint for specific performance against her with the RTC on February 28, 1992. New Dagupan's complaint was raffled to Branch 43 and docketed as Civil Case No. D-10160.

On May 20, 1992, during the pendency of New Dagupan's complaint against Peralta, PCSO caused the registration of the mortgage.[9]

On February 10, 1993, PCSO filed an application for the extrajudicial foreclosure sale of the subject property in view of Galang's failure to fully pay the sweepstakes she purchased in 1992.[10] A public auction took place on June 15, 1993 where PCSO was the highest bidder. A certificate of sale was correspondingly issued to PCSO.[11]

The certified true copy of TCT No. 52135 that New Dagupan obtained from the Register of Deeds of Dagupan City for its use in Civil Case No. D-10160 reflected PCSO's mortgage lien. New Dagupan, claiming that it is only then that it was informed of the subject mortgage, sent a letter to PCSO on October 28, 1993, notifying the latter of its complaint against Peralta and its claim over the subject property and suggesting that PCSO intervene and participate in the case.

On January 21, 1994, the RTC Branch 43 rendered a Decision, approving the compromise agreement between Peralta and New Dagupan. Some of the stipulations made are as follows:

> 3. For her failure to execute, sign and deliver a Deed of Absolute Sale to plaintiff by way of transferring TCT No. 52135 in the name of the latter, defendant hereby waives and quitclaims the remaining balance of the purchase price in the amount of [₱]60,000.00 in favor of the plaintiff, it being understood that the said amount shall be treated as a penalty for such failure;

---

9 Id. at 9.
10 Id. at 11.
11 Id. at 85.

x x x x

> 6. Upon the signing of this compromise agreement, possession and ownership of the above described property, together with all the improvements existing thereon, are hereby vested absolutely upon, and transferred to the plaintiff whom the defendant hereby declares and acknowledges to be the absolute owner thereof, now and hereafter;
>
> 7. This compromise agreement shall be without prejudice to whatever rights and remedies, if any, that the Philippine Charity Sweepstakes [O]ffice has against the herein defendant and Patricia P. Galang under the Deed of Undertaking adverted to under par. 2(f) hereof.[12]

As the RTC Branch 43 Decision dated January 21, 1994 became final and executory, New Dagupan once again demanded Peralta's delivery of the owner's duplicate of TCT No. 52135. Also, in a letter dated March 29, 1994, New Dagupan made a similar demand from PCSO, who in response, stated that it had already foreclosed the mortgage on the subject property and it has in its name a certificate of sale for being the highest bidder in the public auction that took place on June 15, 1993.

Thus, on June 1, 1994, New Dagupan filed with the RTC a petition against PCSO for the annulment of TCT No. 52135 or surrender of the owner's duplicate thereof.[13] The petition was docketed as Civil Case No. 94-00200-D and raffled to Branch 43.

In an Answer[14] dated March 7, 1995, PCSO alleged that: (a) New Dagupan was a buyer in bad faith; (b) New Dagupan and Peralta colluded to deprive PCSO of its rights under the subject mortgage; (c) New Dagupan is estopped from questioning the superior right of PCSO to the subject property when it entered into the compromise agreement subject of the RTC Branch 43 Decision dated January 21, 1994; and (d) New Dagupan is bound by the foreclosure proceedings where PCSO obtained title to the subject property.

---

12 Id. at 11-12.
13 Id. at 12 and 90-94.
14 Id. at 95-99.

In a Motion for Leave to File Third-Party Complaint[15] dated April 17, 1995, PCSO sought the inclusion of Peralta and Galang who are allegedly indispensable parties. In its Third-Party Complaint,[16] PCSO reiterated its allegations in its Answer dated March 7, 1995 and made the further claim that the sale of the subject property to New Dagupan is void for being expressly prohibited under the Deed of Undertaking with First Real Estate Mortgage.

In their Answer to Third-Party Complaint with Counterclaims[17] dated January 2, 1996, Peralta and Galang claimed that: (a) the provision in the Deed of Undertaking with First Real Estate Mortgage prohibiting the sale of the subject property is void under Article 2130 of the Civil Code; (b) PCSO's failure to intervene in Civil Case No. D-10160 despite notice barred it from questioning the sale of the subject property to New Dagupan and the compromise agreement approved by the RTC Branch 43; (c) it was due to PCSO's very own neglect in registering its mortgage lien that preference is accorded to New Dagupan's rights as a buyer of the subject property; and (d) PCSO no longer has any cause of action against them following its decision to foreclose the subject mortgage.

On March 6, 1996, Civil Case No. 94-00200-D was transferred to Branch 42, after the presiding judge of Branch 43 inhibited himself.

On January 28, 1998, the RTC Branch 42 rendered a Decision[18] in New Dagupan's favor, the dispositive portion of which states:

> WHEREFORE, judgment is hereby rendered in favor of the petitioner and against the defendant, ordering PCSO to deliver the owner's duplicate copy of TCT No. 52135 in its possession to the Registry of Deeds of Dagupan City for the purpose of having the decision in favor of the petitioner annotated at the back thereof. Should said defendant fail to deliver the said title within 30 days from the date this decision becomes final and executory, the said owner's duplicate certificate of title is hereby

---

15 Id. at 103-104.
16 Id. at 105-111.
17 Id. at 112-115.
18 Id. at 116-131.

> cancelled and the Register of Deeds can issue a new one carrying all the encumbrances of the original owner's duplicate subject of this case. Further, the defendant is ordered to pay to petitioner the sum of Ten Thousand Pesos (₱10,000.00) as attorney's fees. It is also ordered to pay costs.
>
> SO ORDERED.[19]

The RTC Branch 42 ruled that New Dagupan is a buyer in good faith, ratiocinating that:

> In other words, the evidence of the petitioner would show that although the Deed of Undertaking with First Real Estate Mortgage was executed on March 8, 1989 its annotation was made long after the conditional sale in favor of the petitioner was executed and annotated at the back of the title in question. Because of the said exhibits, petitioner contended that it was a buyer in good faith and for value.
>
> Defendant, to controvert the aforementioned evidence of the plaintiff, alleged that Exhibits C, C-1 to C-1-C was contrary to the testimony of Mr. Julian Ong Cuña to the effect that when defendants sold the property to petitioner only the xerox copy of the title was shown and petitioner should have verified the original as it was a buyer in bad faith. Defendant also alleged that the decision in Civil Case D-10160 dated January 21, 1994 would show that there was a collusion between the petitioner and the third-party defendants.
>
> The Court cannot go along with the reasoning of the defendant because what was shown to Mr. Cuña by the third-party defendants was Exhibit "C" which did not carry any encumbrance at the back of the subject title and the annotation made on May 20, 1992 in favor of the PCSO. Mr. Cuña verified the title x x x but the encumbrance on the title was not still there at [that] time. One thing more, there was nothing indicated in the decision in Civil Case No. D-10160 that petitioner already knew that there was already a mortgage in favor of the PCSO. Worst, defendant did not even introduce any oral evidence to show that petitioner was in bad faith except the manifestations of counsel. Unfortunately, manifestations could not be considered evidence.
>
> x x x x
>
> Defendant should not be allowed to profit from its negligence of not registering the Deed of Undertaking with First Real Estate Mortgage in its favor.[20]

Also, the RTC Branch 42 ruled that the prohibition on the sale of the subject property is void. Specifically:

---

19 Id. at 130-131.

20 Id. at 125-126.

> Suffice it to say that there is no law prohibiting a mortgagor from encumbering or alienating the property mortgaged. On the contrary, there is a law prohibiting an agreement forbidding the owner from alienating a mortgaged property. We are referring to Article 2130 of the New Civil Code which provides as follows:
>
> > "A stipulation forbidding the owner from alienating the immovable mortgage shall be void."[21]

Moreover, the RTC Branch 42 ruled that PCSO had no right to foreclose the subject mortgage as the land in question had already been disencumbered after Galang's full payment of all the sweepstakes tickets she purchased in 1989 and 1990.

> It should be recalled that Amparo Abrigo, OIC Chief of the Credit Accounts Division of the PCSO, admitted not only once but twice that Patricia Galang has no more liability with the PCSO for the years 1989 and 1990 x x x. Another witness, Carlos Castillo who is the OIC of the Sales Department of the PCSO, joined Amparo Abrigo in saying that Patricia Galang has already paid her liability with the PCSO for the years 1989 and 1990 x x x. Thus, the undertaking was already discharged. Both of the said witnesses of the PCSO alleged that the undertaking has been re-used by Patricia Galang for the years 1991 to 1992 yet there is no proof whatsoever showing that Purita Peralta consented to the use of the undertaking by Patricia Galang for 1991 to 1992. Incidentally, it is not far[-]fetched to say that Purita Peralta might have thought that the undertaking was already discharged which was the reason she executed the Deed of Conditional Sale x x x in favor of petitioner in 1990. That being the case, the foreclosure sale in favor of the PCSO has no legal leg to stand as the Deed of Undertaking with First Real Estate Mortgage has already been discharged before the foreclosure sale was conducted.[22]

According to the RTC Branch 42, the intent to use the subject property as security for Galang's purchases for the years after 1989, as PCSO claimed, is not clear from the Deed of Undertaking with First Real Estate Mortgage:

> Was it not provided in the deed that the undertaking would be for "all draws". That might be true but the terms of the Contract should be understood to mean only to cover the draws relative to the current liabilities of Patricia Galang at the time of the execution of the undertaking in 1989. It could have not been agreed upon that it should also cover her liability for 1991 up to 1992 because if that was the intention of the parties, the undertaking should have so provided expressly. The term of

---

21 Id. at 126.

22 Id. at 128.

> the undertaking with respect to the period was ambiguous but any ambiguity in the Contract should be resolved against PCSO because the form used was a standard form of the defendant and it appeared that it was its lawyers who prepared it, therefore, it was the latter which caused the ambiguity.[23]

PCSO's appeal from the foregoing adverse decision was dismissed. By way of its assailed decision, the CA did not agree with PCSO's claim that the subject mortgage is in the nature of a continuing guaranty, holding that Peralta's undertaking to secure Galang's liability to PCSO is only for a period of one year and was extinguished when Peralta completed payment on the sweepstakes tickets she purchased in 1989.

> The instant appeal must fail. There is nothing in the Deed of Undertaking with First Real Estate Mortgage, expressly or impliedly, that would indicate that Peralta agreed to let her property be burdened as long as the contract of undertaking with real [estate] mortgage was not cancelled or revoked. x x x
>
> x x x x
>
> A perusal of the deed of undertaking between the PCSO and Peralta would reveal nothing but the undertaking of Peralta to guarantee the payment of the pre-existing obligation of Galang, constituting the unpaid sweepstakes tickets issued to the latter before the deed of undertaking was executed, with the PCSO in the amount of [₱]450,000.00. No words were added therein to show the intention of the parties to regard it as a contract of continuing guaranty. In other jurisdictions, it has been held that the use of the particular words and expressions such as payment of "any debt", "any indebtedness", "any deficiency", or "any sum", or the guaranty of "any transaction" or money to be furnished the principal debtor "at any time", or "on such time" that the principal debtor may require, have been construed to indicate a continuing guaranty. Similar phrases or words of the same import or tenor are not extant in the deed of undertaking. The deed of undertaking states:
>
> > **"WHEREAS, the PRINCIPAL acknowledges that he/she has an outstanding and unpaid account with the MORTGAGEE in the amount of FOUR HUNDRED FIFTY THOUSAND ([₱]450,000.00), representing the balance of his/her ticket accountabilities for all draws.**"
>
> x x x x
>
> Upon full payment of the principal obligation, which from the testimonies of the officers of the PCSO had been paid as early as 1990, the subsidiary contract of guaranty was automatically terminated. The parties have not executed another contract of guaranty to secure the subsequent

---

[23] Id. at 128-129.

> obligations of Galang for the tickets issued thereafter. It must be noted that a contract of guaranty is not presumed; it must be express and cannot extend to more than what is stipulated therein.
>
> x x x x
>
> The arguments of PCSO fail to persuade us. The phrase "for all draws" is limited to the draws covered by the original transaction. In its pleadings, the PCSO asserted that the contract of undertaking was renewed and the collateral was re-used by Galang to obtain again tickets from the PCSO after she had settled her account under the original contract. From such admission, it is thus clear that the contract is not in the nature of a continuing guaranty. For a contract of continuing guaranty is not renewed as it is understood to be of a continuing nature without the necessity of renewing the same every time a new transaction contemplated under the original contract is entered into. x x x [24] (Citations omitted)

In this petition, PCSO claims that the CA erred in holding that the subject mortgage had been extinguished by Galang's payment of ₱450,000.00, representing the amount of the sweepstakes tickets she purchased in 1989. According to PCSO, the said amount is actually the credit line granted to Galang and the phrase "all draws" refers to her ticket purchases for subsequent years drawn against such credit line. Consequently, PCSO posits, the subject mortgage had not been extinguished by Peralta's payment of her ticket purchases in 1989 and its coverage extends to her purchases after 1989, which she made against the credit line that was granted to her. That when Galang failed to pay her ticket purchases in 1992, PCSO's right to foreclose the subject mortgage arose.

PCSO also maintains that its rights over the subject property are superior to those of New Dagupan. Considering that the contract between New Dagupan is a conditional sale, there was no conveyance of ownership at the time of the execution thereof on July 31, 1989. It was only on January 21, 1994, or when the RTC Branch 43 approved the compromise agreement, that a supposed transfer of title between Peralta and New Dagupan took place. However, since PCSO had earlier foreclosed the subject mortgage and obtained title to the subject property as evidenced by the certificate of

---

[24] Id. at 16-19.

sale dated June 15, 1993, Peralta had nothing to cede or assign to New Dagupan.

PCSO likewise attributes bad faith to New Dagupan, claiming that Peralta's presentation of a mere photocopy of TCT No. 52135, albeit without any annotation of a lien or encumbrance, sufficed to raise reasonable suspicions against Peralta's claim of a clean title and should have prompted it to conduct an investigation that went beyond the face of TCT No. 52135.

PCSO even assails the validity of the subject sale for being against the prohibition contained in the Deed of Undertaking with First Real Estate Mortgage.

New Dagupan, in its Comment,[25] avers that it was a purchaser in good faith and it has a superior right to the subject property, considering that PCSO's mortgage lien was annotated only on May 20, 1992 or long after the execution of the conditional sale on July 31, 1990 and the annotation of New Dagupan's adverse claim on October 1, 1991. While the subject mortgage antedated the subject sale, PCSO was already aware of the latter at the time of its belated registration of its mortgage lien. PCSO's registration was therefore in bad faith, rendering its claim over the subject property defeasible by New Dagupan's adverse claim.

New Dagupan also claims that the subject property had already been discharged from the mortgage, hence, PCSO had nothing to foreclose when it filed its application for extra-judicial foreclosure on February 10, 1993. The subject mortgage was intended to secure Galang's ticket purchases that were outstanding at the time of the execution of the same, the amount of which has been specified to be ₱450,000.00 and does not extend to Galang's future purchases. Thus, upon Galang's full payment of ₱450,000.00, which PCSO admits, the subject mortgage had been automatically terminated as

---

25 Id. at 276-283.

expressly provided under Section 15 of the Deed of Undertaking with First Real Estate Mortgage quoted above.

Issue

The rise and fall of this recourse is dependent on the resolution of the issue who between New Dagupan and PCSO has a better right to the property in question.

Our Ruling

PCSO is undeterred by the denial of its appeal to the CA and now seeks to convince this Court that it has a superior right over the subject property. However, PCSO's resolve fails to move this Court and the ineluctability of the denial of this petition is owing to the following:

> a. At the time of PCSO's registration of its mortgage lien on May 20, 1992, the subject mortgage had already been discharged by Galang's full payment of ₱450,000.00, the amount specified in the Deed of Undertaking with First Real Estate Mortgage;
>
> b. There is nothing in the Deed of Undertaking with First Real Estate Mortgage that would indicate that it is a continuing security or that there is an intent to secure Galang's future debts;
>
> c. Assuming the contrary, New Dagupan is not bound by PCSO's mortgage lien and was a purchaser in good faith and for value; and
>
> d. While the subject mortgage predated the sale of the subject property to New Dagupan, the absence of any evidence that the latter had knowledge of PCSO's mortgage lien at the time of the sale and its prior registration of an adverse claim created a preference in its favor.

I

As a general rule, a mortgage liability is usually limited to the amount mentioned in the contract. However, the amounts named as consideration in a contract of mortgage do not limit the amount for which the mortgage may stand as security if from the four corners of the instrument the intent to secure future and other indebtedness can be gathered.[26]

Alternatively, while a real estate mortgage may exceptionally secure future loans or advancements, these future debts must be specifically described in the mortgage contract. An obligation is not secured by a mortgage unless it comes fairly within the terms of the mortgage contract.[27]

The stipulation extending the coverage of a mortgage to advances or loans other than those already obtained or specified in the contract is valid and has been commonly referred to as a "blanket mortgage" or "dragnet" clause. In *Prudential Bank v. Alviar*,[28] this Court elucidated on the nature and purpose of such a clause as follows:

> A "blanket mortgage clause," also known as a "dragnet clause" in American jurisprudence, is one which is specifically phrased to subsume all debts of past or future origins. Such clauses are "carefully scrutinized and strictly construed." Mortgages of this character enable the parties to provide continuous dealings, the nature or extent of which may not be known or anticipated at the time, and they avoid the expense and inconvenience of executing a new security on each new transaction. A "dragnet clause" operates as a convenience and accommodation to the borrowers as it makes available additional funds without their having to execute additional security documents, thereby saving time, travel, loan closing costs, costs of extra legal services, recording fees, *et cetera*. x x x.[29] (Citations omitted)

A mortgage that provides for a dragnet clause is in the nature of a continuing guaranty and constitutes an exception to the rule than an action to

---

[26] *Spouses Cuyco v. Spouses Cuyco*, 521 Phil. 796, 808 (2006), citing *Union Bank of the Philippines v. Court of Appeals*, 508 Phil. 705 (2005).

[27] *Traders Royal Bank v. Castañares*, G.R. No. 172020, December 6, 2010, 636 SCRA 519, 529, citing *Spouses Cuyco v. Spouses Cuyco*, id.

[28] 502 Phil. 595 (2005).

[29] Id. at 606.

foreclose a mortgage must be limited to the amount mentioned in the mortgage contract. Its validity is anchored on Article 2053 of the Civil Code and is not limited to a single transaction, but contemplates a future course of dealing, covering a series of transactions, generally for an indefinite time or until revoked. It is prospective in its operation and is generally intended to provide security with respect to future transactions within certain limits, and contemplates a succession of liabilities, for which, as they accrue, the guarantor becomes liable. In other words, a continuing guaranty is one that covers all transactions, including those arising in the future, which are within the description or contemplation of the contract of guaranty, until the expiration or termination thereof.[30]

In this case, PCSO claims the subject mortgage is a continuing guaranty. According to PCSO, the intent was to secure Galang's ticket purchases other than those outstanding at the time of the execution of the Deed of Undertaking with First Real Estate Mortgage on March 8, 1989 such that it can foreclose the subject mortgage for Galang's non-payment of her ticket purchases in 1992. PCSO does not deny and even admits that Galang had already settled the amount of ₱450,000.00. However, PCSO refuses to concede that the subject mortgage had already been discharged, claiming that Galang had unpaid ticket purchases in 1992 and these are likewise secured as evidenced by the following clause in the Deed of Undertaking with First Real Estate Mortgage:

> WHEREAS, the PRINCIPAL agrees to liquidate or pay said account ten (10) days after each draw with interest at the rate of 14% per annum;[31]

This Court has to disagree with PCSO in view of the principles quoted above. A reading of the other pertinent clauses of the subject mortgage, not only of the provision invoked by PCSO, does not show that the security

---

[30] *Bank of Commerce v. Flores*, G.R. No. 174006, December 8, 2010, 637 SCRA 563, 571-572, citing *Diño v. Court of Appeals*, G.R. No. 89775, November 26, 1992, 216 SCRA 9.

[31] *Rollo*, p. 79.

provided in the subject mortgage is continuing in nature. That the subject mortgage shall only secure Galang's liability in the amount of ₱450,000.00 is evident from the following:

> WHEREAS, the PRINCIPAL acknowledges that he/she has an outstanding and unpaid account with the MORTGAGEE in the amount of FOUR HUNDRED FIFTY THOUSAND (₱450,000.00), representing the balance of his/her ticket accountabilities for all draws;
>
> x x x x
>
> The PRINCIPAL shall settle or pay his/her account of FOUR HUNDRED FIFTY THOUSAND PESOS (₱450,000.00) PESOS with the MORTGAGEE, provided that the said balance shall bear interest thereon at the rate of 14% per annum;
>
> To secure the faithful compliance and as security to the obligation of the PRINCIPAL stated in the next preceding paragraph hereof, the MORTGAGOR hereby convey unto and in favor of the MORTGAGEE, its successor and assigns by way of its first real estate mortgage, a parcel/s of land together with all the improvements now or hereafter existing thereon, located at BOQUIG, DAGUPAN CITY, covered by TCT No. 52135, of the Register of Deeds of DAGUPAN CITY, and more particularly described as follows:[32]

As the CA correctly observed, the use of the terms "outstanding" and "unpaid" militates against PCSO's claim that future ticket purchases are likewise secured. That there is a seeming ambiguity between the provision relied upon by PCSO containing the phrase "after each draw" and the other provisions, which mention with particularity the amount of ₱450,000.00 as Galang's unpaid and outstanding account and secured by the subject mortgage, should be construed against PCSO. The subject mortgage is a contract of adhesion as it was prepared solely by PCSO and the only participation of Galang and Peralta was the act of affixing their signatures thereto.

Considering that the debt secured had already been fully paid, the subject mortgage had already been discharged and there is no necessity for any act or document to be executed for the purpose. As provided in the Deed of Undertaking with First Real Estate Mortgage:

---

[32] Id. at 79-80.

> 15. Upon payment of the principal amount together with interest and other expenses legally incurred by the MORTGAGEE, the above-undertaking is considered terminated.[33]

Section 62[34] of Presidential Decree (P.D.) No. 1529 appears to require the execution of an instrument in order for a mortgage to be cancelled or discharged. However, this rule presupposes that there has been a prior registration of the mortgage lien prior to its discharge. In this case, the subject mortgage had already been cancelled or terminated upon Galang's full payment before PCSO availed of registration in 1992. As the subject mortgage was not annotated on TCT No. 52135 at the time it was terminated, there was no need for Peralta to secure a deed of cancellation in order for such discharge to be fully effective and duly reflected on the face of her title.

Therefore, since the subject mortgage is not in the nature of a continuing guaranty and given the automatic termination thereof, PCSO cannot claim that Galang's ticket purchases in 1992 are also secured. From the time the amount of ₱450,000.00 was fully settled, the subject mortgage had already been cancelled such that Galang's subsequent ticket purchases are unsecured. Simply put, PCSO had nothing to register, much less, foreclose.

Consequently, PCSO's registration of its non-existent mortgage lien and subsequent foreclosure of a mortgage that was no longer extant cannot defeat New Dagupan's title over the subject property.

II

Sections 51 and 53 of P.D. No. 1529 provide:

---

33 Id. at 83.

34 Sec. 62. *Discharge or cancellation.* – A mortgage or lease on registered land may be discharged or cancelled by means of an instrument executed by the mortgage or lessee in the form sufficient in law, which shall be filed with the Register of Deeds who shall make the appropriate memorandum upon the certificate of title.

> **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 may use such forms of deeds, mortgages, leases or other voluntary instrument, except a will purporting to convey or affect registered 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.

On the other hand, Article 2125 of the Civil Code states:

> Article 2125. In addition to the requisites stated in Article 2085, it is indispensable, in order that a mortgage may be validly constituted, that the document in which it appears be recorded in the Registry of Property. If the instrument is not recorded, the mortgage is nevertheless binding between the parties.
>
> The persons in whose favor the law establishes a mortgage have no other right than to demand the execution and the recording of the document in which the mortgage is formalized.

Construing the foregoing conjunctively, as to third persons, a property registered under the Torrens system is, for all legal purposes, unencumbered or remains to be the property of the person in whose name it is registered, notwithstanding the execution of any conveyance, mortgage, lease, lien, order or judgment unless the corresponding deed is registered.

The law does not require a person dealing with the owner of registered land to go beyond the certificate of title as he may rely on the notices of the encumbrances on the property annotated on the certificate of title or absence of any annotation.[35] Registration affords legal protection such that the claim

---

[35] *Ching v. Lee Enrile*, G.R. No. 156076, September 17, 2008, 565 SCRA 402, 415.

of an innocent purchaser for value is recognized as valid despite a defect in the title of the vendor.[36]

In *Cruz v. Bancom Finance Corporation*,[37] the foregoing principle was applied as follows:

> *Second*, respondent was already aware that there was an adverse claim and notice of *lis pendens* annotated on the Certificate of Title when it registered the mortgage on March 14, 1980. Unless duly registered, a mortgage does not affect third parties like herein petitioners, as provided under Section 51 of PD NO. 1529, which we reproduce hereunder:
>
> x x x x
>
> True, registration is not the operative act for a mortgage to be binding between the parties. But to third persons, it is indispensible. In the present case, the adverse claim and the notice of *lis pendens* were annotated on the title on October 30, 1979 and December 10, 1979, respectively; the real estate mortgage over the subject property was registered by respondent only on March 14, 1980. Settled in this jurisdiction is the doctrine that a prior registration of a lien creates a preference. Even a subsequent registration of the prior mortgage will not diminish this preference, which retroacts to the date of the annotation of the notice of *lis pendens* and the adverse claim. Thus, respondent's failure to register the real estate mortgage prior to these annotations, resulted in the mortgage being binding only between it and the mortgagor, Sulit. Petitioners, being third parties to the mortgage, were not bound by it. Contrary to respondent's claim that petitioners were in bad faith because they already had knowledge of the existence of the mortgage in favor of respondent when they caused the aforesaid annotations, petitioner Edilberto Cruz said that they only knew of this mortgage when respondent intervened in the RTC proceedings.[38] (Citations omitted)

It is undisputed that it was only on May 20, 1992 that PCSO registered its mortgage lien. By that time, New Dagupan had already purchased the subject property, albeit under a conditional sale. In fact, PCSO's mortgage lien was yet to be registered at the time New Dagupan filed its adverse claim on October 1, 1991 and its complaint against Peralta for the surrender of the owner's duplicate of TCT No. 52135 on February 28, 1992. It was only during the pendency of Civil Case No. D-10160, or sometime in 1993, that New Dagupan was informed of PCSO's mortgage

---

[36] *Republic v. Ravelo*, G.R. No. 165114, August 6, 2008, 561 SCRA 204, 216, citing *Cruz v. Court of Appeals*, 346 Phil. 506 (1997).

[37] 429 Phil. 225 (2002).

[38] Id. at 241-243.

lien. On the other hand, PCSO was already charged with knowledge of New Dagupan's adverse claim at the time of the annotation of the subject mortgage. PCSO's attempt to conceal these damning facts is palpable. However, they are patent from the records such that there is no gainsaying that New Dagupan is a purchaser in good faith and for value and is not bound by PCSO's mortgage lien.

A purchaser in good faith and for value is one who buys property of another, **without** notice that some other person has a right to, or interest in, such property, and pays a 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 person in the property.[39] Good faith is the opposite of fraud and of bad faith, and its non-existence must be established by competent proof.[40] *Sans* such proof, a buyer is deemed to be in good faith and his interest in the subject property will not be disturbed. A purchaser of a registered property can rely on the guarantee afforded by pertinent laws on registration that he can take and hold it free from any and all prior liens and claims except those set forth in or preserved against the certificate of title.[41]

This Court cannot give credence to PCSO's claim to the contrary. PCSO did not present evidence, showing that New Dagupan had knowledge of the mortgage despite its being unregistered at the time the subject sale was entered into. Peralta, in the compromise agreement, even admitted that she did not inform New Dagupan of the subject mortgage.[42] PCSO's only basis for claiming that New Dagupan was a buyer in bad faith was the latter's reliance on a mere photocopy of TCT No. 52135. However, apart from the fact that the facsimile bore no annotation of a lien or encumbrance, PCSO failed to refute the testimony of Cuña that his verification of TCT No.

---

39 *Aggabao v. Parulan, Jr.*, G.R. No. 165803, September 1, 2010, 629 SCRA 562, 574-575.

40 *Bautista v. Court of Appeals*, G.R. No. 106042, February 28, 1994, 230 SCRA 446, 455, citing *Cui and Joven v. Henson*, 51 Phil. 606, 612 (1928).

41 *Sajonas v. CA*, 327 Phil. 689 (1996).

42 *Rollo*, p. 88.

52135 with the Register of Deeds of Dagupan City confirmed Peralta's claim of a clean title.

Since PCSO had notice of New Dagupan's adverse claim prior to the registration of its mortgage lien, it is bound thereby and thus legally compelled to respect the proceedings on the validity of such adverse claim. It is therefore of no moment if PCSO's foreclosure of the subject mortgage and purchase of the subject property at the auction sale took place prior to New Dagupan's acquisition of title as decreed in the Decision dated January 21, 1994 of RTC Branch 43. The effects of a foreclosure sale retroact to the date the mortgage was registered.[43] Hence, while PCSO may be deemed to have acquired title over the subject property on May 20, 1992, such title is rendered inferior by New Dagupan's adverse claim, the validity of which was confirmed per the Decision dated January 21, 1994 of RTC Branch 43.

Otherwise, if PCSO's mortgage lien is allowed to prevail by the mere expediency of registration over an adverse claim that was registered ahead of time, the object of an adverse claim – to apprise third persons that any transaction regarding the disputed property is subject to the outcome of the dispute – would be rendered naught. A different conclusion would remove the primary motivation for the public to rely on and respect the Torrens system of registration. Such would be inconsistent with the well-settled, even axiomatic, rule that a person dealing with registered property need not go beyond the title and is not required to explore outside the four (4) corners thereof in search for any hidden defect or inchoate right that may turn out to be superior.

Worthy of extrapolation is the fact that there is no conflict between the disposition of this case and *Garbin v. CA*[44] where this Court decided the controversy between a buyer with an earlier registered adverse claim and a

---

[43] *Pineda v. Court of Appeals*, 456 Phil. 732, 751 (2003), citing *Dr. Caviles, Jr. v. Bautista*, 377 Phil. 25 (1999).

[44] 323 Phil. 228 (1996).

subsequent buyer, who is charged with notice of such adverse claim at the time of the registration of her title, in favor of the latter. As to why the adverse claim cannot prevail against the rights of the later buyer notwithstanding its prior registration was discussed by this Court in this wise:

> It is undisputed that the adverse claim of private respondents was registered pursuant to Sec. 110 of Act No. 496, the same having been accomplished by the filing of a sworn statement with the Register of Deeds of the province where the property was located. However, what was registered was merely the adverse claim and *not* the Deed of Sale, which supposedly conveyed the northern half portion of the subject property. Therefore, there is still need to resolve the validity of the adverse claim in separate proceedings, as there is an absence of registration of the actual conveyance of the portion of land herein claimed by private respondents.
>
> From the provisions of the law, it is clear that mere registration of an adverse claim does not make such claim valid, nor is it permanent in character. More importantly, such registration does not confer instant title of ownership since judicial determination on the issue of the ownership is still necessary.[45] (Citation omitted)

Apart from the foregoing, the more important consideration was the improper resort to an adverse claim. In *L.P. Leviste & Co. v. Noblejas*, [46] this Court emphasized that the availability of the special remedy of an adverse claim is subject to the absence of any other statutory provision for the registration of the claimant's alleged right or interest in the property. That if the claimant's interest is based on a perfected contract of sale or any voluntary instrument executed by the registered owner of the land, the procedure that should be followed is that prescribed under Section 51 in relation to Section 52 of P.D. No. 1529. Specifically, the owner's duplicate certificate must be presented to the Register of Deeds for the inscription of the corresponding memorandum thereon and in the entry day book. It is only when the owner refuses or fails to surrender the duplicate certificate for annotation that a statement setting forth an adverse claim may be filed with the Register of Deeds. Otherwise, the adverse claim filed will not have the effect of a conveyance of any right or interest on the disputed property that

---

45 Id. at 237.

46 178 Phil. 422 (1979).

could prejudice the rights that have been subsequently acquired by third persons.

What transpired in *Gabin* is similar to that in *Leviste*. In *Gabin*, the basis of the claim on the property is a deed of absolute sale. In *Leviste*, what is involved is a contract to sell. Both are voluntary instruments that should have been registered in accordance with Sections 51 and 52 of P.D. No. 1529 as there was no showing of an inability to present the owner's duplicate of title.

It is patent that the contrary appears in this case. Indeed, New Dagupan's claim over the subject property is based on a conditional sale, which is likewise a voluntary instrument. However, New Dagupan's use of the adverse claim to protect its rights is far from being incongruent in view of the undisputed fact that Peralta failed to surrender the owner's duplicate of TCT No. 52135 despite demands.

Moreover, while the validity of the adverse claim in *Gabin* is not established as there was no separate proceeding instituted that would determine the existence and due execution of the deed of sale upon which it is founded, the same does not obtain in this case. The existence and due execution of the conditional sale and Peralta's absolute and complete cession of her title over the subject property to New Dagupan are undisputed. These are matters covered by the Decision dated January 21, 1994 of RTC Branch 43, which had long become final and executory.

At any rate, in *Sajonas v.CA*,[47] this Court clarified that there is no necessity for a prior judicial determination of the validity of an adverse claim for it to be considered a flaw in the vendor's title as that would be repugnant to the very purpose thereof.[48]

---

47 Supra note 41.

48 "Then again, in *Gardner v. Court of Appeals*, we said that "the statement of respondent court in its resolution of reversal that 'until the validity of an adverse claim is determined judicially, it cannot be considered a flaw in the vendor's title' contradicts the very object of adverse claims. As stated earlier, the

WHEREFORE, premises considered, the petition is **DISMISSED** and the Decision dated September 29, 2005 and Resolution dated June 9, 2006 of the Court of Appeals in CA-G.R. CV No. 59590 are hereby **AFFIRMED.**

SO ORDERED.

BIENVENIDO L. REYES
Associate Justice

WE CONCUR:

ANTONIO T. CARPIO
Senior Associate Justice
Chairperson, Second Division

ARTURO D. BRION
Associate Justice

JOSE PORTUGAL PEREZ
Associate Justice

MARIA LOURDES P. A. SERENO
Associate Justice

CERTIFICATION

I certify that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.

ANTONIO T. CARPIO
Senior Associate Justice
(Per Section 12, R.A. 296
The Judiciary Act of 1948, as amended)