

Republic of the Philippines Supreme Court Manila

SECOND DIVISION

FLORENTINO W. LEONG AND G.R. No. 194077 ELENA LEONG, ET AL., Petitioners, Present:

-versus-

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

Promulgated: EDNA C. SEE, DEC 0 3 2014 dianCabalingturfectio Respondent.

DECISION

LEONEN, J.

Factual findings of lower courts are generally deemed conclusive and binding upon this court.¹ In any event, "even if the procurement of title was tainted with fraud and misrepresentation, such defective title may be the source of a completely legal and valid title in the hands of an innocent purchaser for value."²

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Designated Acting Member per Special Order No. 1888 dated November 28, 2014.

Sps. Villamil v. Villarosa, 602 Phil. 932, 940 (2009) [Per J. Tinga, Second Division], citing Sigaya v. Mayuga, 504 Phil. 600, 611 (2005) [Per J. Austria-Martinez, Second Division], citing Orquiola v. Court of Appeals, 435 Phil. 323, 331 (2002) [Per J. Quisumbing, Second Division]; Sps. Uy v. Court of Appeals, 411 Phil. 788, 798 (2001) [Per J. Melo, Third Division]; Baricuatro, Jr. v. Court of Appeals, 382 Phil. 15, 24 (2000) [Per J. Buena, Second Division].

² PNB v. Heirs of Estanislao and Deogracias Militar, 526 Phil. 788, 794 (2006) [Per J. Ynares-Santiago, Special First Division], citing Cabuhat v. Court of Appeals, 418 Phil. 451, 456 (2001) [Per J. Ynares-Santiago, First Division].

This petition originated from two civil complaints involving the sale of a parcel of land in favor of respondent Edna C. See (Edna). Before us is a petition for review³ assailing the Court of Appeals' (a) May 19, 2010 decision affirming in toto the trial court's July 9, 2008 decision granting Edna possession and ownership over the land upon finding her to be a buyer in good faith and for value, and (b) August 25, 2010 resolution denying reconsideration.

Petitioners pray for the reversal of the Court of Appeals' decision and resolution, as well as the trial court's decision.⁴ They pray that this court render its decision as follows:

(a) The Deed of Sale between Edna See and Carmelita Leong is hereby declared null and void. The Register [of] Deeds for the City of Manila is hereby directed to cancel TCT No. 231105 in the name of Edna See and reinstating TCT No. 175628;

(b) Confirming the right of Elena Leong and those people claiming right under her, to the possession over the subject property; [and]

(c) Defendants Carmelita Leong and Edna See are declared to be jointly and severally liable to pay plaintiff, Florentino Leong[,] the sum of Php50,000.00 as moral damages; the sum of Php50,000.00 a[s] Attorney's Fees; and the cost of suit.⁵

The spouses Florentino Leong (Florentino) and Carmelita Leong (Carmelita) used to own the property located at No. 539–41 Z.P. De Guzman Street, Quiapo, Manila.⁶

Petitioner Elena Leong (Elena) is Florentino's sister-in-law.⁷ She had stayed with her in-laws on the property rental-free for over two decades until the building they lived in was razed by fire.⁸ They then constructed makeshift houses, and the rental-free arrangement continued.⁹

Florentino and Carmelita immigrated to the United States and eventually had their marriage dissolved in Illinois.¹⁰ A provision in their marital settlement agreement states that "Florentino shall convey and quitclaim all of his right, title and interest in and to 540 De Guzman Street, Manila, Philippines . . . to Carmelita."¹¹

¹¹ Id.

³ This petition was filed pursuant to Rule 45 of the Rules of Court.

⁴ *Rollo*, p. 22.

⁵ Id. at 23. ⁶ Id. at 31–3

⁶ Id. at 31–32.
⁷ Id. at 32.

⁸ Id. at

 ⁹ Id.

¹⁰ Id.

The Court of Appeals found that "[a]pparently intercalated in the lower margin of page 12 of the instrument was a long-hand scribbling of a proviso, purporting to be a footnote remark":¹²

Neither party shall evict or charge rent to relatives of the parties, or convey title, until it has been established that Florentino has clear title to the Malabon property. Clear title to be established by the attorneys for the parties or the ruling of a court of competent jurisdiction. In the event Florentino does not obtain clear title, this court reserves jurisdiction to reapportion the properties or their values to effect a 50-50 division of the value of the 2 remaining Philippine properties.¹³

On November 14, 1996,¹⁴ Carmelita sold the land to Edna.¹⁵ In lieu of Florentino's signature of conformity in the deed of absolute sale, Carmelita presented to Edna and her father, witness Ernesto See, a waiver of interest notarized on March 11, 1996 in Illinois.¹⁶ In this waiver, Florentino reiterated his quitclaim over his right, title, and interest to the land.¹⁷ Consequently, the land's title, covered by TCT No. 231105, was transferred to Edna's name.¹⁸

Edna was aware of the Leong relatives staying in the makeshift houses on the land.¹⁹ Carmelita assured her that her nieces and nephews would move out, but demands to vacate were unheeded.²⁰

On April 1, 1997,²¹ Edna filed a complaint²² for recovery of possession against Elena and the other relatives of the Leong ex-spouses.²³

The complaint alleged that in 1995 after the fire had razed the building on the land, Elena erected makeshift houses on the land without Carmelita's knowledge or consent.²⁴

In response, Elena alleged the title's legal infirmity for lack of Florentino's conformity to its sale.²⁵ She argued that Carmelita's non-compliance with the proviso in the property agreement — that the Quiapo property "may not be alienated without Florentino first obtaining a clean title

¹² Id.

¹³ Id. at 32-33. ¹⁴ Id. at 162 The second second

¹⁴ Id. at 162. The RTC decision states the date as November 12, 1996.

¹⁵ Id. at 12 and 33.

¹⁶ Id. at 33.
¹⁷ Id. at 32–33.

¹⁸ Id. at 12-35.

 $^{^{10}}$ Id. at 12. 19 Id. at 33.

 $^{^{20}}$ Id. at 3

²¹ Id. at 125.

²² This case was docketed as Civil Case No. 97-82757.

²³ *Rollo*, pp. 12 and 33.

²⁴ Id. at 12.

²⁵ Id. at 33.

over the Malabon property"²⁶ — annulled the transfer to Edna.

On April 23, 1997, Florentino filed a complaint²⁷ for declaration of nullity of contract, title, and damages against Carmelita Leong, Edna C. See, and the Manila Register of Deeds, alleging that the sale was without his consent.²⁸ The two cases were consolidated.

The Regional Trial Court, in its decision²⁹ dated July 9, 2008, ruled in favor of Edna:

WHEREFORE, in view of the foregoing, judgment is hereby rendered as follows:

(a) Defendant Edna See is granted possession and ownership over the subject property;

(b) Defendants Elena Leong and all other persons are directed to vacate the premises at 539–541 Guzman Street, Quiapo, Manila; [and]

(c) Defendant Carmelita Leong is ordered to pay plaintiff, Florentino Leong his one-half (1/2) or 2 Million with interest thereon at the rate of 6% per annum from the date of conveyance on November 12, 1996, up to the finality of this Decision; the sum of PhP 50,000.00 as moral damages; the sum of PhP 50,000.00 for attorney's fees; and, the costs of the suit.

SO ORDERED.³⁰

The Court of Appeals, in its decision³¹ dated May 19, 2010, affirmed in toto the trial court's decision.³² It likewise denied reconsideration.

Thus, this petition for review was filed.

Petitioners contend that the principle of indefeasibility of Torrens titles does not apply when fraud exists, and respondent was a buyer in bad faith.³³ Respondent knew at the time of the purchase that Elena had actual possession of the property, thus, she should have made inquiries on their right to the property.³⁴

²⁶ Id.

²⁷ This case was docketed as Civil Case No. 97-83036.

²⁸ *Rollo*, pp. 12–13.

 ²⁹ CA *rollo*, pp. 24–27. The decision was penned by Presiding Judge Antonio I. De Castro of the Regional Trial Court of Manila, Branch 3.
 ³⁰ Id. et 27.

³⁰ Id. at 27.

 ³¹ *Rollo*, pp. 31–38. The decision, docketed as CA-G.R. CV No. 92289, was penned by Associate Justice Apolinario D. Bruselas, Jr. and concurred in by Associate Justices Mario L. Guariña III and Rodil V. Zalameda of the Ninth Division.
 ³² Id. at 38.

³² Id. at 38.

³³ Id. at 146.

³⁴ Id. at 147.

Petitioners argue the conjugal nature of the property, evidenced by the title in the names of Florentino and Carmelita Leong, and the waiver relied upon by respondent.³⁵ They cite Articles 3³⁶ and 15³⁷ of the Civil Code, and Articles 87³⁸ and 134³⁹ of the Family Code, to support their contention that respondent should have demanded Florentino's consent to the sale.⁴⁰ Petitioners submit that Florentino's waiver is void since donations between spouses are void.⁴¹

Petitioners argue that respondent should bear the loss⁴² of her negligence in purchasing the property without Florentino's consent.⁴³ They cite at length *Aggabao v. Parulan, Jr.*⁴⁴ to support their argument that respondent failed to exercise the required due diligence in the purchase of the property.⁴⁵ Consequently, petitioners submit that the lower courts erred in ruling that respondent was entitled to possession of the property.⁴⁶

Respondent counters that only questions of law can be raised in a petition for review on certiorari, and petitioners raise purely factual questions.⁴⁷

In any event, the lower courts correctly found that respondent is a purchaser in good faith for value who exercised the necessary diligence in purchasing the property.⁴⁸

First, good faith is presumed, and petitioners did not substantiate their bold allegation of fraud.⁴⁹ Second, respondent did not rely on the clean title alone precisely because of the possession by third parties, thus, she also relied on Florentino's waiver of interest.⁵⁰ Respondent even verified the authenticity of the title at the Manila Register of Deeds with her father and

³⁵ Id. at 148.

³⁶ CIVIL CODE, art. 3. Ignorance of the law excuses no one from compliance therewith.

³⁷ CIVIL CODE, art. 15. Laws relating to family rights and duties, or to the status, condition and legal capacity of persons are binding upon citizens of the Philippines, even though living abroad.

³⁸ FAMILY CODE, art. 87. Every donation or grant of gratuitous advantage, direct or indirect, between the spouse during the marriage shall be void, except moderate gifts which the spouses may give each other on the occasion of any family rejoicing. The prohibition shall also apply to persons living together as husband and wife without a valid marriage.

 ³⁹ FAMILY CODE, art. 134. In the absence of an express declaration in the marriage settlements, the separation of property between spouses during the marriage shall not take place except by judicial order. Such judicial separation of property may either be voluntary or for sufficient cause.
 ⁴⁰ *Rollo*, p. 149.

 $^{^{41}}$ Id.

⁴² Id. at 155.

⁴³ Id. at 150.

⁴⁴ G.R. No. 165803, September 1, 2010, 629 SCRA 562 [Per J. Bersamin, Third Division].

⁴⁵ *Rollo*, p. 151.

⁴⁶ Id. at 156.

⁴⁷ Id. at 127.

⁴⁸ Id. at 130.

⁴⁹ Id. at 131.

⁵⁰ Id. at 132.

Carmelita.⁵¹ These further inquiries prove respondent's good faith.⁵²

Respondent submits that petitioners' invocation of the Civil Code provisions misleads this court.⁵³ Philippine laws cannot govern Florentino who was already an American citizen when he executed the waiver of interest, obtained a divorce, and signed a marital settlement agreement with Carmelita on July 8, 1994.⁵⁴ The waiver was also a consequence of the separation of properties and not in the nature of a donation between spouses.⁵⁵

Lastly, respondent argues that "between possessors who are not owners and a buyer in good faith and for value, it is clear in this case that the Respondent Edna See, the buyer in good faith, has the greater right to possession over the subject property."⁵⁶

The sole issue for resolution is whether respondent Edna C. See is a buyer in good faith and for value.

We affirm the Court of Appeals.

The Torrens system was adopted 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."⁵⁷

One need not inquire beyond the four corners of the certificate of title when dealing with registered property.⁵⁸ Section 44 of Presidential Decree No. 1529 known as the Property Registration Decree recognizes innocent purchasers in good faith 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*

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⁵¹ Id. at 135.

⁵² Id. at 132.

⁵³ Id.

⁵⁴ Id.

⁵⁵ Id. at 133.

⁵⁶ Id. at 135–136.

⁵⁷ Casimiro Development Corporation v. Mateo, G.R. No. 175485, July 27, 2011, 654 SCRA 676, 686 [Per J. Bersamin, First Division]; *Republic of the Philippines v. Guerrero*, 520 Phil. 296, 307 (2006) [Per J. Garcia, Second Division], *citing J.* Barredo, concurring opinion, in *Republic of the Philippines v. Court of Appeals*, 183 Phil. 426, 434 (1979) [Per J. Aquino, Second Division].

 ⁵⁸ Casimiro Development Corporation v. Mateo, G.R. No. 175485, July 27, 2011, 654 SCRA 676, 689
 [Per J. Bersamin, First Division], citing Sandoval v. Court of Appeals, 329 Phil. 48, 60 (1996) [Per J. Romero, Second Division]; Santos v. Court of Appeals, G.R. No. 90380, September 13, 1990, 189
 SCRA 550, 558 [Per J. Gancayco, First Division]; Unchuan v. Court of Appeals, 244 Phil. 733, 739
 (1988) [Per J. Cortes, Third Division]; Bailon-Casilao v. Court of Appeals, 243 Phil. 888, 898 (1988)
 [Per J. Cortes, Third Division]; Director of Lands v. Abad, 61 Phil. 479, 487 (1935) [Per J. Goddard, En Banc]; Quimson v. Suarez, 45 Phil. 901, 906 (1924) [Per J. Ostrand, En Banc].

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 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.⁵⁹ (Emphasis supplied)

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."⁶⁰ One claiming to be an innocent purchaser for value has the burden of proving such status.⁶¹

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.⁶²

Both lower courts found respondent to be an innocent purchaser in good faith for value.⁶³ The trial court discussed:

⁵⁹ Pres. Decree No. 1529 (1978), sec. 44.

⁶⁰ Sps. Villamil v. Villarosa, 602 Phil. 932, 941 (2009) [Per J. Tinga, Second Division], citing Sps. Domingo v. Reed, 513 Phil. 339, 353 (2005) [Per J. Panganiban, Third Division].

⁶¹ Id., *citing Potenciano v. Reynoso*, 449 Phil. 396, 410 (2003) [Per J. Panganiban, Third Division].

⁶² See Oliver E. Williamson, *Transaction-Cost Economics: The Governance of Contractual Relations*, 22 Journal of Law and Economics 233, 239–242 (1979).

⁶³ *Rollo*, pp. 34 and 164.

By her overt acts, Edna See with her father verified the authenticity of Carmelita's land title at the Registry of Deeds of Manila. There was no annotation on the same thus deemed a clean title (page 19, TSN, 12 January 2005). Also, she relied on the duly executed and notarized Certificate of Authority issued by the State of Illinois and Certificate of Authentication issued by the Consul of the Republic of the Philippines for Illinois in support to the Waiver of Interest incorporated in the Deed of Absolute Sale presented to her by Carmelita (Exhibit 2). Examination of the assailed Certificate of Authority shows that it is valid and regular on its face. It contains a notarial seal....

.... The assailed Certificate of Authority is a notarized document and therefore, presumed to be valid and duly executed. Thus, Edna See's reliance on the notarial acknowledgment found in the duly notarized Certificate of Authority presented by Carmelita is sufficient evidence of good faith....⁶⁴

A determination of whether a party is an innocent purchaser in good faith and for value involves a factual issue beyond the ambit of a petition for review on certiorari.⁶⁵

Generally, factual findings of lower courts are deemed conclusive and binding upon this court.⁶⁶ No cogent reason exists to overturn the findings of both lower courts.

Petitioners raise that "actual possession of the property by a person other than the vendor should put the purchaser in inquiry and absen[t] such inquiry[,] he cannot be regarded as a bona fide purchaser against such possessors."⁶⁷

As discussed by the Court of Appeals, respondent did conduct further inquiry by relying not only on the certificate of title, but also on Florentino's waiver.⁶⁸

Petitioners submit that respondent bought the property knowing that Florentino and Carmelita were married.⁶⁹ They then invoke Civil Code and Family Code provisions on the nature of conjugal properties and the

⁶⁴ Id. at 164..

⁶⁵ Sps. Villamil v. Villarosa, 602 Phil. 932, 940 (2009) [Per J. Tinga, Second Division]. See also RULES OF COURT, rule 45, sec. 1.

⁶⁶ Sps. Villamil v. Villarosa, 602 Phil. 932, 940 (2009) [Per J. Tinga, Second Division], citing Sigaya v. Mayuga, 504 Phil. 600, 611 (2005) [Per J. Austria-Martinez, Second Division], citing Orquiola v. Court of Appeals, 435 Phil. 323, 331 (2002) [Per J. Quisumbing, Second Division]; Sps. Uy v. Court of Appeals, 411 Phil. 788, 798 (2001) [Per J. Melo, Second Division]; Baricuatro, Jr. v. Court of Appeals, 382 Phil. 15, 24 (2000) [Per J. Buena, Second Division].

⁶⁷ *Rollo*, p. 147.

⁶⁸ Id. at 35.

⁶⁹ Id. at 148.

prohibition against donations between spouses.⁷⁰

Respondent counters that Florentino and Carmelita were already American citizens when they executed the marital settlement agreement.⁷¹ She even presented before the trial court Florentino's special power of attorney executed on March 25, 1997 to prove Florentino's citizenship.⁷²

The trial court disregarded petitioners' argument on the applicability of our civil laws on the validity of the sale since it already deemed respondent to be an innocent purchaser in good faith and for value.⁷³ The trial court added that since "[respondent] parted with a substantial amount of P4 Million, equity dictates that she shall have possession of the property[,] [n]onetheless, Florentino Leong shall get his one-half share of the purchase price."⁷⁴

On the other hand, the Court of Appeals discussed that Florentino was estopped from questioning the transfer of the property since he already waived all his rights, title, and interests over the same.⁷⁵ The court also found that the intercalated proviso in the marital settlement agreement violated the mutuality of contracts principle.⁷⁶

The question of whether Florentino and Carmelita were already American citizens at the time of the property's sale to Edna — thus no longer covered by our laws relating to family rights and duties⁷⁷ — involves a factual question outside the ambit of a petition for review on certiorari.

In any event, respondent exerted due diligence when she ascertained the authenticity of the documents attached to the deed of sale such as the marital settlement agreement with Florentino's waiver of interest over the property. She did not rely solely on the title. She even went to the Registry of Deeds to verify the authenticity of the title.⁷⁸ These further inquiries were considered by the lower courts in finding respondent to be an innocent purchaser in good faith and for value.

Lastly, an allegation of fraud must be substantiated. Rule 8, Section 5 of the Rules of Court provides:

⁷⁰ Id. at 148–149.

⁷¹ Id. at 132.

⁷² Id. at 133.

⁷³ Id. at 164.

 ⁷⁴ CA *rollo*, p. 62.
 ⁷⁵ *Pollo* p. 36

⁷⁵ *Rollo*, p. 36.

⁷⁶ Id. CIVIL CODE, art. 1308. The contracts must bind both contracting parties; its validity or compliance cannot be left to the will of one of them.

⁷⁷ See CIVIL CODE, art. 15.

⁷⁸ *Rollo*, p. 164.

SEC. 5. Fraud, mistake, condition of the mind. – In all averments of fraud or mistake, the circumstances constituting fraud or mistake must be stated with particularity. Malice intent, knowledge or other condition of the mind of a person may be averred generally. (Emphasis supplied)

In petitioners' memorandum before this court, they mentioned the rule of fraud as an exception to the indefeasibility of title principle, but failed to substantiate their allegation by immediately concluding as follows:

Petitioners beg to disagree with the ruling of the Honorable Trial Court and the Honorable Court of Appeals. Respondent Edna See is not a buyer in good faith. The ruling that every person can rely on the correctness of the certificate of title and that the buyer need not go beyond the four corners of the title to determine the condition of the property is not absolute and admits of exception. As held in the case of Remegia Feliciano vs. Sps. Zaldivar, G.R. No. 162593, 2006 Sep 26 the principle of indefeasibility of a Torrens title does not apply where fraud attended the issuance of the title. The Torrens title does not furnish a shield for fraud. As such, a title issued based on void documents may be annulled.⁷⁹ (Emphasis in the original removed)

Even assuming the procurement of title was tainted with fraud and misrepresentation, "such defective title may still be the source of a completely legal and valid title in the hands of an innocent purchaser for value."⁸⁰

Respondent, an innocent purchaser in good faith and for value with title in her name, has a better right to the property than Elena. Elena's possession was neither adverse to nor in the concept of owner.⁸¹

Article 428 of the Civil Code provides:

Art. 428. The owner has the right to enjoy and dispose of a thing, without other limitations than those established by law.

The owner has also a right of action against the holder and possessor of the thing in order to recover it.⁸²

Thus, respondent had every right to pursue her claims as she did.

⁷⁹ Id. at 146.

⁸⁰ PNB v. Heirs of Estanislao and Deogracias Militar, 526 Phil. 788, 794 (2006) [Per J. Ynares-Santiago, Special First Division], *citing Cabuhat v. Court of Appeals*, 418 Phil. 451, 456 (2001) [Per J. Ynares-Santiago, First Division].

⁸¹ *Rollo*, p. 35.

⁸² CIVIL CODE, art. 428.

WHEREFORE, premises considered, the Court of Appeals' decision in CA-G.R. CV No. 92289 is AFFIRMED.

SO ORDERED.

MARVIC MY.V. F. LEONEN Associate Justice

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WE CONCUR:

ANTONIO T. CARPIO Associate Justice Chairperson

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MARIANO C. DEL CASTILLO Associate Justice

MART LLARAMA, JR. Associate Justice

JOSE CA DOZA Associate Justide

ATTESTATION

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

ANTONIO T. CARPIO Associate Justice Chairperson, Second Division

CERTIFICATION

Pursuant to Section 13, Article VIII of the Constitution and the Division Chairperson's Attestation, I certify that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.

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MARIA LOURDES P. A. SERENO Chief Justice