



Republic of the Philippines  
**Supreme Court**  
 Manila

**SECOND DIVISION**

**HOMEOWNERS SAVINGS AND  
 LOAN BANK,**

Petitioner-Appellant,

- versus -

**ASUNCION P. FELONIA and LYDIA  
 C. DE GUZMAN, represented by  
 MARIBEL FRIAS,**

Respondents-Appellees.

**MARIE MICHELLE P. DELGADO,  
 REGISTER OF DEEDS OF LAS  
 PIÑAS CITY and RHANDOLFO B.  
 AMANSEC, in his capacity as Clerk of  
 Court Ex-Officio Sheriff, Office of the  
 Clerk of Court, Las Piñas City,**

Respondents-Defendants.

**G.R. No. 189477**

Present:

CARPIO, J.,\*  
 Acting Chief Justice,  
 DEL CASTILLO,  
 PEREZ,  
 PERLAS-BERNABE, and  
 LEONEN,\*\* JJ.

Promulgated:

~~FEB 26 2014~~

X-----X

**DECISION**

**PEREZ, J.:**

Assailed in this Petition for Review on *Certiorari* is the Decision<sup>1</sup> and Resolution<sup>2</sup> of the Court of Appeals (CA), in CA-G.R. CV No. 87540, which

\* Per Special Order No. 1644 dated 26 February 2014.

\*\* Per Special Order No. 1636 dated 17 February 2014.

affirmed with modifications, the Decision<sup>3</sup> of the Regional Trial Court (RTC), reinstating the title of respondents Asuncion Felonia (Felonia) and Lydia de Guzman (De Guzman) and cancelling the title of Marie Michelle Delgado (Delgado).

The facts as culled from the records are as follows:

Felonia and De Guzman were the registered owners of a parcel of land consisting of 532 square meters with a five-bedroom house, covered by Transfer of Certificate of Title (TCT) No. T-402 issued by the register of deeds of Las Piñas City.

Sometime in June 1990, Felonia and De Guzman mortgaged the property to Delgado to secure the loan in the amount of ₱1,655,000.00. However, instead of a real estate mortgage, the parties executed a Deed of Absolute Sale with an Option to Repurchase.<sup>4</sup>

On 20 December 1991, Felonia and De Guzman filed an action for Reformation of Contract (Reformation case), docketed as Civil Case No. 91-59654, before the RTC of Manila. On the findings that it is “very apparent that the transaction had between the parties is one of a mortgage and not a deed of sale with right to repurchase,”<sup>5</sup> the RTC, on 21 March 1995 rendered a judgment favorable to Felonia and De Guzman. Thus:

WHEREFORE, judgment is hereby rendered directing the [Felonia and De Guzman] and the [Delgado] to execute a deed of mortgage over the property in question taking into account the payments made and the imposition of the legal interests on the principal loan.

On the other hand, the counterclaim is hereby dismissed for lack of merit.

No pronouncements as to attorney’s fees and damages in both instances as the parties must bear their respective expenses incident to this suit.<sup>6</sup>

---

<sup>1</sup> CA *rollo*, pp. 87-98; Penned by Associate Justice Apolinario D. Bruselas, Jr., with Associate Justices Bienvenido L. Reyes (now a member of this Court) and Mariflor P. Punzalan Castillo concurring.

<sup>2</sup> Id. at 112-114.

<sup>3</sup> *Rollo*, pp. 170-177; Penned by Presiding Judge Lorna Navarro Domingo.

<sup>4</sup> Records, pp. 779-781.

<sup>5</sup> Id. at 95.

<sup>6</sup> Id. at 46.

Aggrieved, Delgado elevated the case to the CA where it was docketed as CA-G.R. CV No. 49317. The CA affirmed the trial court decision. On 16 October 2000, the CA decision became final and executory.<sup>7</sup>

In spite of the pendency of the Reformation case in which she was the defendant, Delgado filed a “Petition for Consolidation of Ownership of Property Sold with an Option to Repurchase and Issuance of a New Certificate of Title” (Consolidation case) in the RTC of Las Piñas, on 20 June 1994.<sup>8</sup> After an ex-parte hearing, the RTC ordered the issuance of a new title under Delgado’s name, thus:

WHEREFORE, judgment is rendered-

1. Declaring [DELGADO] as absolute owner of the subject parcel of land covered by Transfer Certificate of Title No. T-402 of the Register of Deeds of Las Piñas, Metro Manila;
2. Ordering the Register of Deeds of Las Piñas, Metro Manila to cancel Transfer Certificate of Title No. T-402 and issue in lieu thereof a new certificate of title and owner’s duplicate copy thereof in the name of [DELGADO].<sup>9</sup>

By virtue of the RTC decision, Delgado transferred the title to her name. Hence, TCT No. T-402, registered in the names of Felonia and De Guzman, was canceled and TCT No. 44848 in the name of Delgado, was issued.

Aggrieved, Felonia and De Guzman elevated the case to the CA through a Petition for Annulment of Judgment.<sup>10</sup>

Meanwhile, on 2 June 1995, Delgado mortgaged the subject property to Homeowners Savings and Loan Bank (HSLB) using her newly registered title. Three (3) days later, or on 5 June 1995, HSLB caused the annotation of the mortgage.

---

<sup>7</sup> Id. at 729-742; Exhibits “F-H.”

<sup>8</sup> *Rollo*, p. 17; LRC Case No. M-3302, RTC-Las Piñas City, Branch 275.

<sup>9</sup> Records, p. 49.

<sup>10</sup> *Felonia, et al. v. Hon. Alfredo R. Enriquez, et al.*, CA-G.R. SP No. 43711, Court of Appeals, Eight Division.

On 14 September 1995, Felonia and De Guzman caused the annotation of a Notice of *Lis Pendens* on Delgado's title, TCT No. 44848. The Notice states:

Entry No. 8219/T-44848 – NOTICE OF LIS PENDENS – filed by Atty. Humberto A. Jambora, Counsel for the Plaintiff, that a case been commenced in the RTC, Branch 38, Manila, entitled ASUNCION P. FELONIA and LYDIA DE GUZMAN thru VERONICA P. BELMONTE, as Atty-in-fact (Plaintiffs) v.s. MARIE MICHELLE DELGADO defendant in Civil Case No. 91-59654 for Reformation of Instrument. Copy on file in this Registry.  
Date of Instrument – Sept. 11, 1995  
Date of Inscription – Sept. 14, 1995 at 9:55 a.m.<sup>11</sup>

On 20 November 1997, HSLB foreclosed the subject property and later consolidated ownership in its favor, causing the issuance of a new title in its name, TCT No. 64668.

On 27 October 2000, the CA annulled and set aside the decision of the RTC, Las Piñas City in the Consolidation case. The decision of the CA, declaring Felonia and De Guzman as the absolute owners of the subject property and ordering the cancellation of Delgado's title, became final and executory on 1 December 2000.<sup>12</sup> Thus:

WHEREFORE, the petition is GRANTED and the subject judgment of the court *a quo* is ANNULLED and SET ASIDE.<sup>13</sup>

On 29 April 2003, Felonia and De Guzman, represented by Maribel Frias (Frias), claiming to be the absolute owners of the subject property, instituted the instant complaint against Delgado, HSLB, Register of Deeds of Las Piñas City and Rhandolfo B. Amansec before the RTC of Las Piñas City for Nullity of Mortgage and Foreclosure Sale, Annulment of Titles of Delgado and HSLB, and finally, Reconveyance of Possession and Ownership of the subject property in their favor.

As defendant, HSLB asserted that Felonia and De Guzman are barred from laches as they had slept on their rights to timely annotate, by way of Notice of *Lis Pendens*, the pendency of the Reformation case. HSLB also claimed that it should not be bound by the decisions of the CA in the Reformation and Consolidation cases because it was not a party therein.

---

<sup>11</sup> Records, p. 114.

<sup>12</sup> Id. at 752-759; Exhibits "N-O."

<sup>13</sup> Id. at 757.

Finally, HSLB asserted that it was a mortgagee in good faith because the mortgage between Delgado and HSLB was annotated on the title on 5 June 1995, whereas the Notice of *Lis Pendens* was annotated only on 14 September 1995.

After trial, the RTC ruled in favor of Felonia and De Guzman as the absolute owners of the subject property. The dispositive portion of the RTC decision reads:

WHEREFORE, premises considered, the Court hereby finds for the [Felonia and De Guzman] with references to the decision of the Court of Appeals in CA-G.R. CV No. 49317 and CA-G.R. SP No. 43711 as THESE TWO DECISIONS CANNOT BE IGNORED and against [Delgado] and [HSLB], Register of Deeds of Las Piñas City ordering the (sic) as follows:

1. The Register of Deeds of Las Piñas City to cancel Transfer Certificate of Title Nos. 44848 and T-64668 as null and void and reinstating Transfer Certificate of Title No. T-402 which shall contain a memorandum of the fact and shall in all respect be entitled to like faith and credit as the original certificate of title and shall, thereafter be regarded as such for all intents and purposes under the law;
2. Declaring the Mortgage Sheriff's Sale and the Certificate of Sale issued in favor of HSLB null and void, without prejudice to whatever rights the said Bank may have against [Delgado];
3. Ordering [Delgado] to pay [Felonia and De Guzman] the amount of PHP500,000.00 for compensatory damages;
4. Ordering [Delgado] to pay [Felonia and De Guzman] the amount of PHP500,000.00 for exemplary damages;
5. Ordering [Delgado] to pay [Felonia and De Guzman] the amount of PHP500,000.00 for moral damages;
6. Ordering [Delgado] to pay 20% of the total obligations as and by way of attorney's fees;
7. Ordering [Delgado] to pay cost of suit.<sup>14</sup>

---

<sup>14</sup> Rollo, pp. 176-177.

On appeal, the CA affirmed with modifications the trial court decision. The dispositive portion of the appealed Decision reads:

WHEREFORE, in the light of the foregoing, the decision appealed from is AFFIRMED with the MODIFICATIONS that the awards of actual damages and attorney's fees are DELETED, moral and exemplary damages are REDUCED to P50,000.00 each, and Delgado is ordered to pay the appellees P25,000.00 as nominal damages.<sup>15</sup>

Hence, this petition.

Notably, HSLB does not question the affirmance by the CA of the trial court's ruling that TCT No. 44848, the certificate of title of its mortgagor-vendor, and TCT No. 64668, the certificate of title that was secured by virtue of the Sheriff's sale in its favor, should be cancelled "as null and void" and that TCT No. T-402 in the name of Felonia and De Guzman should be reinstated.

Recognizing the validity of TCT No. T-402 restored in the name of Felonia and De Guzman, petitioners pray that the decision of the CA be modified "to the effect that the mortgage lien in favor of petitioner HSLB annotated as entry No. 4708-12 on TCT No. 44848 be [ordered] carried over on TCT No. T-402 after it is reinstated in the name of [Felonia and De Guzman]."<sup>16</sup>

Proceeding from the ruling of the CA that it is a mortgagee in good faith, HSLB argues that a denial of its prayer would run counter to jurisprudence giving protection to a mortgagee in good faith by reason of public policy.

We cannot grant the prayer of petitioner. The priorly registered mortgage lien of HSLB is now worthless.

Arguably, HSLB was initially a mortgagee in good faith. In *Bank of Commerce v. San Pablo, Jr.*,<sup>17</sup> the doctrine of mortgagee in good faith was explained:

---

<sup>15</sup> CA rollo, p. 98.

<sup>16</sup> Rollo, p. 15.

<sup>17</sup> G.R. No. 167848, 27 April 2007, 522 SCRA 713, 726 citing *Cavite Development Bank v. Spouses Lim*, 381 Phil. 355, 368 (2000) as cited in *Ereña v. Querrer-Kauffman*, G.R. No. 165853, 22 June 2006, 492 SCRA 298, 319.

There is, however, a situation where, despite the fact that the mortgagor is not the owner of the mortgaged property, his title being fraudulent, the mortgage contract and any foreclosure sale arising therefrom are given effect by reason of public policy. This is the doctrine of “the mortgagee in good faith” based on the rule that all persons dealing with property covered by the Torrens Certificates of Title, as buyers or mortgagees, are not required to go beyond what appears on the face of the title. The public interest in upholding indefeasibility of a certificate of title, as evidence of lawful ownership of the land or of any encumbrance thereon, protects a buyer or mortgagee who, in good faith, relied upon what appears on the face of the certificate of title.

When the property was mortgaged to HSLB, the registered owner of the subject property was Delgado who had in her name TCT No. 44848. Thus, HSLB cannot be faulted in relying on the face of Delgado’s title. The records indicate that Delgado was at the time of the mortgage in possession of the subject property and Delgado’s title did not contain any annotation that would arouse HSLB’s suspicion. HSLB, as a mortgagee, had a right to rely in good faith on Delgado’s title, and in the absence of any sign that might arouse suspicion, HSLB had no obligation to undertake further investigation. As held by this Court in *Cebu International Finance Corp. v. CA*:<sup>18</sup>

The prevailing jurisprudence is that a mortgagee has a right to rely in good faith on the certificate of title of the mortgagor of the property given as security and in the absence of any sign that might arouse suspicion, has no obligation to undertake further investigation. Hence, even if the mortgagor is not the rightful owner of, or does not have a valid title to, the mortgaged property, the mortgagee or transferee in good faith is nonetheless entitled to protection.

However, the rights of the parties to the present case are defined not by the determination of whether or not HSLB is a mortgagee in good faith, but of whether or not HSLB is a purchaser in good faith. And, HSLB is not such a purchaser.

A purchaser in good faith is defined as one who buys a property without notice that some other person has a right to, or interest in, the property and pays full and fair price at the time of purchase or before he has notice of the claim or interest of other persons in the property.<sup>19</sup>

---

<sup>18</sup> 335 Phil. 643, 655 (1997).

<sup>19</sup> See *Sigaya v. Mayuga*, 504 Phil. 600, 613 (2005); *San Lorenzo Development Corp v. CA*, 490 Phil. 7, 24 (2005); *Occeña v. Esponilla*, G.R. No. 156973, 4 June 2004, 431 SCRA 116, 124; *Sps. Castro v. Miat*, 445 Phil. 282, 298 (2003); *AFP Mutual Benefit Association, Inc. v. CA*, G.R. No. 104769 (consolidated with *Solid Homes, Inc. v. Investco, Inc.*, G.R. No. 135016), 417 Phil. 250,

When a prospective buyer is faced with facts and circumstances as to arouse his suspicion, he must take precautionary steps to qualify as a purchaser in good faith. In *Spouses Mathay v. CA*,<sup>20</sup> we determined the duty of a prospective buyer:

Although it is a recognized principle that a person dealing on a registered land need not go beyond its certificate of title, it is also a firmly settled rule that where there are circumstances which would put a party on guard and prompt him to investigate or inspect the property being sold to him, such as the presence of occupants/tenants thereon, it is of course, expected from the purchaser of a valued piece of land to inquire first into the status or nature of possession of the occupants, i.e., whether or not the occupants possess the land *en concepto de dueño*, in the concept of the owner. As is the common practice in the real estate industry, an ocular inspection of the premises involved is a safeguard a cautious and prudent purchaser usually takes. Should he find out that the land he intends to buy is occupied by anybody else other than the seller who, as in this case, is not in actual possession, it would then be incumbent upon the purchaser to verify the extent of the occupant's possessory rights. The failure of a prospective buyer to take such precautionary steps would mean negligence on his part and would thereby preclude him from claiming or invoking the rights of a purchaser in good faith.

In the case at bar, HSLB utterly failed to take the necessary precautions. At the time the subject property was mortgaged, there was yet no annotated Notice of *Lis Pendens*. However, at the time HSLB purchased the subject property, the Notice of *Lis Pendens* was already annotated on the title.<sup>21</sup>

*Lis pendens* is a Latin term which literally means, "a pending suit or a pending litigation" while a notice of *lis pendens* is an announcement to the whole world that a real property is in litigation, serving as a warning that anyone who acquires an interest over the property does so at his/her own risk, or that he/she gambles on the result of the litigation over the property.<sup>22</sup> It is a warning to prospective buyers to take precautions and investigate the pending litigation.

---

256 (2001); *Republic of the Philippines v. CA*, 365 Phil. 522, 529 (1999) and *Sandoval v. CA*, 329 Phil. 48, 62 (1996).

<sup>20</sup> 356 Phil. 870, 892 (1998).

<sup>21</sup> Records, p. 744; Exhibits "I-3."

<sup>22</sup> *People v. RTC of Manila*, 258-A Phil. 68, 75 (1989) citing *Baranda, et al. v. Gustilo*, 248 Phil. 205 (1988); *Tanchoco v. Judge Aquino*, 238 Phil. 1 (1987); *Marasigan v. Intermediate Appellate Court*, 236 Phil. 274 (1987); *St. Dominic Corporation v. Intermediate Appellate Court*, 222 Phil. 540 (1985); *Constantino v. Espiritu*, 150-A Phil. 953 (1972); *Jose v. Cayetano*, 149 Phil. 451 (1971); *Nataño, et al. v. Esteban, et al.*, 124 Phil. 1067 (1966); See also *Rehabilitation Finance Corporation v. Morales*, 101 Phil. 171 (1957), and *Jamora v. Duran*, 69 Phil. 3 (1939).



The purpose of a notice of *lis pendens* is to protect the rights of the registrant while the case is pending resolution or decision. With the notice of *lis pendens* duly recorded and remaining uncanceled, the registrant could rest secure that he/she will not lose the property or any part thereof during litigation.

The doctrine of *lis pendens* is founded upon reason of public policy and necessity, the purpose of which is to keep the subject matter of the litigation within the Court's jurisdiction until the judgment or the decree have been entered; otherwise, by successive alienations pending the litigation, its judgment or decree shall be rendered abortive and impossible of execution.<sup>23</sup>

Indeed, at the time HSLB bought the subject property, HSLB had actual knowledge of the annotated Notice of *Lis Pendens*. Instead of heeding the same, HSLB continued with the purchase knowing the legal repercussions a notice of *lis pendens* entails. HSLB took upon itself the risk that the Notice of *Lis Pendens* leads to. As correctly found by the CA, "the notice of *lis pendens* was annotated on 14 September 1995, whereas the foreclosure sale, where the appellant was declared as the highest bidder, took place sometime in 1997. There is no doubt that at the time appellant purchased the subject property, it was aware of the pending litigation concerning the same property and thus, the title issued in its favor was subject to the outcome of said litigation."<sup>24</sup>

This ruling is in accord with *Rehabilitation Finance Corp. v. Morales*,<sup>25</sup> which underscored the significance of a *lis pendens*, then defined in Sec. 24, Rule 7 now Sec. 14 of Rule 13 in relation to a mortgage priorly annotated on the title covering the property. Thus:

The notice of *lis pendens* in question was annotated on the back of the certificate of title as a necessary incident of the civil action to recover the ownership of the property affected by it. The mortgage executed in favor of petitioner corporation was annotated on the same title prior to the annotation of the notice of *lis pendens*; but when petitioner bought the property as the highest bidder at the auction sale made as an aftermath of the foreclosure of the mortgage, the title already bore the notice of *lis pendens*. *Held*: While the notice of *lis pendens* cannot affect petitioner's right as mortgagee, because the same was annotated subsequent to the mortgage, yet the said notice affects its right as purchaser because notice of *lis pendens* simply means that a certain property is involved in a

---

<sup>23</sup> *Laroza v. Guia*, G.R. No. L-45252, 31 January 1985, 134 SCRA 341, 345.

<sup>24</sup> *Rollo*, p. 83.

<sup>25</sup> 101 Phil. 171 (1957).

litigation and serves as a notice to the whole world that one who buys the same does so at his own risk.<sup>26</sup>

The subject of the *lis pendens* on the title of HSLB's vendor, Delgado, is the "Reformation case" filed against Delgado by the herein respondents. The case was decided with finality by the CA in favor of herein respondents. The contract of sale in favor of Delgado was ordered reformed into a contract of mortgage. By final decision of the CA, HSLB's vendor, Delgado, is not the property owner but only a mortgagee. As it turned out, Delgado could not have constituted a valid mortgage on the property. That the mortgagor be the absolute owner of the thing mortgaged is an essential requisite of a contract of mortgage. Article 2085 (2) of the Civil Code specifically says so:

Art. 2085. The following requisites are essential to the contracts of pledge and mortgage:

x x x x

(2) That the pledgor or mortgagor be the absolute owner of the thing pledged or mortgaged.

Succinctly, for a valid mortgage to exist, ownership of the property is an essential requisite.<sup>27</sup>

*Reyes v. De Leon*<sup>28</sup> cited the case of *Philippine National Bank v. Rocha*<sup>29</sup> where it was pronounced that "a mortgage of real property executed by one who is not an owner thereof at the time of the execution of the mortgage is without legal existence." Such that, according to *DBP v. Prudential Bank*,<sup>30</sup> there being no valid mortgage, there could also be no valid foreclosure or valid auction sale.

We go back to *Bank of Commerce v. San Pablo, Jr.*<sup>31</sup> where the doctrine of mortgagee in good faith, upon which petitioner relies, was clarified as "based on the rule that all persons dealing with property covered by the Torrens Certificate of Title, as buyers or mortgagees, are not required to go beyond what appears on the face of the title. In turn, the rule is based on "x x x public interest in upholding the indefeasibility of a

---

<sup>26</sup> Id. at 171-172.

<sup>27</sup> *Reyes v. De Leon*, 126 Phil. 710, 716 (1967).

<sup>28</sup> Id.

<sup>29</sup> 55 Phil. 497 (1930).

<sup>30</sup> 512 Phil. 267, 278 (2005) citing *Cruz v. Bancom Finance Corporation*, 429 Phil. 225 (2002).

<sup>31</sup> *Supra* note 17.

certificate of title, as evidence of lawful ownership of the land or of any encumbrance thereon.”<sup>32</sup>


Insofar as the HSLB is concerned, there is no longer any public interest in upholding the indefeasibility of the certificate of title of its mortgagor, Delgado. Such title has been nullified in a decision that had become final and executory. Its own title, derived from the foreclosure of Delgado’s mortgage in its favor, has likewise been nullified in the very same decision that restored the certificate of title in respondents’ name. There is absolutely no reason that can support the prayer of HSLB to have its mortgage lien carried over and into the restored certificate of title of respondents.

**WHEREFORE**, the Petition is **DENIED**. The Decision of the Court of Appeals in CA-G.R. CV No. 87540 is **AFFIRMED**.

**SO ORDERED.**

  
**JOSE PORTUGAL PEREZ**  
Associate Justice

WE CONCUR:

  
**ANTONIO T. CARPIO**  
Acting Chief Justice  
Chairperson

---

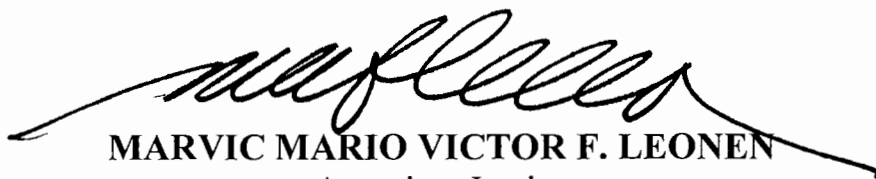
<sup>32</sup> Id.



**MARIANO C. DEL CASTILLO**  
Associate Justice



**ESTELA M. PERLAS-BERNABE**  
Associate Justice



**MARVIC MARIO VICTOR F. LEONEN**  
Associate Justice

**CERTIFICATION**

Pursuant to Section 13, Article VIII of the Constitution, 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**  
Acting Chief Justice