



Republic of the Philippines  
**Supreme Court**  
Manila

**FIRST DIVISION**

**MACARIA ARGUELLES and the  
HEIRS OF THE DECEASED  
PETRONIO ARGUELLES,**  
Petitioners,

**G.R. No. 200468**

Present:

SERENO, C.J.,  
*Chairperson,*  
LEONARDO-DE CASTRO,  
BERSAMIN,  
VILLARAMA, JR., and  
REYES, JJ.

- versus -

**MALARAYAT RURAL BANK, INC.,**  
Respondent.

Promulgated:

**MAR 19 2014**

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**DECISION**

**VILLARAMA, JR., J.:**

Before us is a petition for review on certiorari assailing the Decision<sup>1</sup> dated December 19, 2011 and Resolution<sup>2</sup> dated February 6, 2012 of the Court of Appeals (CA) in CA-G.R. CV No. 92555. The CA had reversed and set aside the July 29, 2008 Decision<sup>3</sup> of the Regional Trial Court (RTC) Branch 86, of Taal, Batangas, in Civil Case No. 66.

The facts, as culled from the records, follow:

The late Fermina M. Guia was the registered owner of Lot 3, a parcel of agricultural land in Barrio Pinagkurusan, Alitagtag, Batangas, with an area of 4,560 square meters, as evidenced by Original Certificate of Title (OCT) No. P-12930<sup>4</sup> of the Register of Deeds of Batangas. On December 1, 1990, Fermina M. Guia sold the south portion of the land with an approximate area of 1,350 square meters to the spouses Petronio and

<sup>1</sup> Rollo, pp. 52-71. Penned by Associate Justice Franchito N. Diamante, with Presiding Justice Andres B. Reyes, Jr. and Associate Justice Mariflor P. Punzalan Castillo, concurring.

<sup>2</sup> Id. at 72-74.

<sup>3</sup> Records, pp. 368-378. Penned by Judge Juanita G. Areta.

<sup>4</sup> Rollo, pp. 75-77.

Macaria Arguelles.<sup>5</sup> Although the spouses Arguelles immediately acquired possession of the land, the Deed of Sale was neither registered with the Register of Deeds nor annotated on OCT No. P-12930. At the same time, Fermina M. Guia ordered her son Eddie Guia and the latter’s wife Teresita Guia to subdivide the land covered by OCT No. P-12930 into three lots and to apply for the issuance of separate titles therefor, to wit: Lot 3-A, Lot 3-B, and Lot 3-C. Thereafter, she directed the delivery of the Transfer Certificate of Title (TCT) corresponding to Lot 3-C to the vendees of the unregistered sale or the spouses Arguelles. However, despite their repeated demands, the spouses Arguelles claimed that they never received the TCT corresponding to Lot 3-C from the spouses Guia.

Nevertheless, in accordance with the instructions of Fermina M. Guia, the spouses Guia succeeded in cancelling OCT No. P-12930 on August 15, 1994 and in subdividing the lot in the following manner:

Lot No.	TCT No.	Registered Owner
3-A	T-83943	Fermina M. Guia
3-B	T-83945	Spouses Datingaling
3-C	T-83944	Fermina M. Guia <sup>6</sup>

On August 18, 1997, the spouses Guia obtained a loan in the amount of ₱240,000 from the respondent Malarayat Rural Bank and secured the loan with a Deed of Real Estate Mortgage<sup>7</sup> over Lot 3-C. The loan and Real Estate Mortgage were made pursuant to the Special Power of Attorney<sup>8</sup> purportedly executed by the registered owner of Lot 3-C, Fermina M. Guia, in favor of the mortgagors, spouses Guia. Moreover, the Real Estate Mortgage and Special Power of Attorney were duly annotated in the memorandum of encumbrances of TCT No. T-83944 covering Lot 3-C.

The spouses Arguelles alleged that it was only in 1997 or after seven years from the date of the unregistered sale that they discovered from the Register of Deeds of Batangas City the following facts: (1) subdivision of Lot 3 into Lots 3-A, 3-B, and 3-C; (2) issuance of separate TCTs for each lot; and (3) the annotation of the Real Estate Mortgage and Special Power of Attorney over Lot 3-C covered by TCT No. T-83944. Two years thereafter, or on June 17, 1999, the spouses Arguelles registered their adverse claim<sup>9</sup> based on the unregistered sale dated December 1, 1990 over Lot 3-C.

On July 22, 1999, the spouses Arguelles filed a complaint<sup>10</sup> for *Annulment of Mortgage and Cancellation of Mortgage Lien with Damages* against the respondent Malarayat Rural Bank with the RTC, Branch 86, of Taal, Batangas. In asserting the nullity of the mortgage lien, the spouses

<sup>5</sup> Deed of Sale of A Parcel of Land, id. at 78-79.  
<sup>6</sup> Records, pp. 3, 264-265.  
<sup>7</sup> Rollo, p. 82.  
<sup>8</sup> Id. at 83.  
<sup>9</sup> Records, pp. 266-267.  
<sup>10</sup> Id. at 1-7.

Arguelles alleged ownership over the land that had been mortgaged in favor of the respondent Malarayat Rural Bank. On August 16, 1999, the respondent Malarayat Rural Bank filed an *Answer with Counterclaim and Cross-claim*<sup>11</sup> against cross-claim-defendant spouses Guia wherein it argued that the failure of the spouses Arguelles to register the Deed of Sale dated December 1, 1990 was fatal to their claim of ownership.

On July 29, 2008, the RTC rendered a Decision, the dispositive portion of which reads as follows:

WHEREFORE, premises considered judgment is hereby rendered:

- 1) declaring the mortgage made by the defendants spouses Eddie Guia and Teresita Guia in favor of defendant Malarayat Rural Bank null and void;
- 2) setting aside the foreclosure sale had on December 6, 1999 and the corresponding certificate of sale issued by this Court dated May 12, 2000;
- 3) ordering the Register of Deeds of the Province of Batangas to cancel the annotation pertaining to the memorandum of encumbrances (entries no. 155686 and 155688) appearing in TCT No. T-839[4]4;
- 4) ordering cross defendants spouses Eddie and Teresita Guia to pay the amount of Php240,000.00 to cross claimant Malarayat Rural [B]ank corresponding to the total amount of the loan obligation, with interest herein modified at 12% per annum computed from default;
- 5) ordering defendants spouses Eddie and Teresita Guia to pay plaintiffs Arguelles the amount of Php100,000.00 as moral damages. However, the prayer of the plaintiffs to order the registration of the deed of sale in their favor as well as the subsequent issuance of a new title in their names as the registered owners is denied considering that there are other acts that the plaintiffs ought to do which are administrative in nature, and are dependent upon compliance with certain requirements pertaining to land acquisition and transfer.

SO ORDERED.<sup>12</sup>

The RTC found that the spouses Guia were no longer the absolute owners of the land described as Lot 3-C and covered by TCT No. T-83944 at the time they mortgaged the same to the respondent Malarayat Rural Bank in view of the unregistered sale in favor of the vendee spouses Arguelles. Thus, the RTC annulled the real estate mortgage, the subsequent foreclosure sale, and the corresponding issuance of the certificate of title. Moreover, the RTC declared that the respondent Malarayat Rural Bank was not a mortgagee in good faith as it failed to exercise the exacting degree of diligence required from banking institutions.

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<sup>11</sup> Id. at 27-33.

<sup>12</sup> Id. at 377-378.

On September 16, 2008, the respondent filed a notice of appeal with the CA.

On December 19, 2011, the CA reversed and set aside the decision of the court *a quo*:

IN LIGHT OF THE FOREGOING, premises considered, the instant appeal is GRANTED. Accordingly, the Decision of the RTC of Taal, Batangas, Branch 86 promulgated on July 29, 2008 in Civil Case No. 66 is hereby REVERSED AND SET ASIDE and the complaint below dismissed.

SO ORDERED.<sup>13</sup>

In granting the appeal, the CA held that because of the failure of the spouses Arguelles to register their deed of sale, the unregistered sale could not affect the respondent Malarayat Rural Bank. Thus, the respondent Malarayat Rural Bank has a better right to the land mortgaged as compared to spouses Arguelles who were the vendees in the unregistered sale. In addition, the CA found that the respondent Malarayat Rural Bank was a mortgagee in good faith as it sufficiently demonstrated due diligence in approving the loan application of the spouses Guia.

Aggrieved, the petitioners filed the instant petition raising the following issues for resolution:

A

THE COURT OF APPEALS ERRED IN HOLDING THAT THE DEED OF SALE EXECUTED BY FERMINA GUIA IN FAVOR OF THE SPOUSES PETRONIO AND MACARIA ARGUELLES CANNOT BE ENFORCED AGAINST APPELLANT BANK FOR NOT BEING REGISTERED AND ANNOTATED IN THE CERTIFICATE OF TITLE, DESPITE THE FACT THAT THE BANK HAD ACTUAL KNOWLEDGE THEREOF.

B

THE COURT OF APPEALS COMMITTED A MISTAKE IN FINDING THAT APPELLANT BANK IS A MORTGAGEE IN GOOD FAITH NOTWITHSTANDING CONCLUSIVE EVIDENCE ON RECORD THAT IT WAS GROSSLY NEGLIGENT IN NOT ASCERTAINING THE REAL CONDITION OF THE PROPERTY IN THE POSSESSION OF THE SPOUSES ARGUELLES BEFORE ACCEPTING IT AS COLLATERAL FOR THE LOAN APPLIED FOR BY A MERE ATTORNEY-IN-FACT.

C

THE COURT OF APPEALS COMMITTED AN ERROR IN DECLARING APPELLANT BANK HAS BECOME THE ABSOLUTE OWNER OF THE SUBJECT PROPERTY NOTWITHSTANDING THE NULLITY OF THE REAL ESTATE MORTGAGE EXTRAJUDICIALLY FORECLOSED BY IT.

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<sup>13</sup> *Rollo*, pp. 70-71.

## D

THE COURT OF APPEALS ERRED IN HOLDING THAT THE SPOUSES ARGUELLES DID NOT PUT IN ISSUE THAT APPELLANT BANK HAD CONSTRUCTIVE NOTICE AND POSSESSION OF THE SUBJECT LOT.<sup>14</sup>

In fine, the issue in this case is whether the respondent Malarayat Rural Bank is a mortgagee in good faith who is entitled to protection on its mortgage lien.

Petitioners imputed negligence on the part of respondent Malarayat Rural Bank when it approved the loan application of the spouses Guia. They pointed out that the bank failed to conduct a thorough ocular inspection of the land mortgaged and an extensive investigation of the title of the registered owner. And since the respondent Malarayat Rural Bank cannot be considered a mortgagee in good faith, petitioners argued that the unregistered sale in their favor takes precedence over the duly registered mortgage lien. On the other hand, respondent Malarayat Rural Bank claimed that it exercised the required degree of diligence before granting the loan application. In particular, it asserted the absence of any facts or circumstances that can reasonably arouse suspicion in a prudent person. Thus, the respondent Malarayat Rural Bank argued that it is a mortgagee in good faith with a better right to the mortgaged land as compared to the vendees to the unregistered sale.

The petition is meritorious.

At the outset, we note that the issue of whether a mortgagee is in good faith generally cannot be entertained in a petition filed under Rule 45 of the 1997 Rules of Civil Procedure, as amended.<sup>15</sup> This is because the ascertainment of good faith or the lack thereof, and the determination of negligence are factual matters which lay outside the scope of a petition for review on certiorari.<sup>16</sup> However, a recognized exception to this rule is when the RTC and the CA have divergent findings of fact<sup>17</sup> as in the case at bar. We find that the respondent Malarayat Rural Bank is not a mortgagee in good faith. Therefore, the spouses Arguelles as the vendees to the unregistered sale have a superior right to the mortgaged land.

In *Cavite Development Bank v. Spouses Lim*,<sup>18</sup> the Court explained the doctrine of mortgagee in good faith, thus:

There is, however, a situation where, despite the fact that the mortgagor is not the owner of the mortgaged property, his title being

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<sup>14</sup> Id. at 19-20.

<sup>15</sup> See *PNB v. Heirs of Militar*, 504 Phil. 634, 643 (2005), citing *Sps. Uy v. Court of Appeals*, 411 Phil. 788, 798 (2001).

<sup>16</sup> See *PNB v. Heirs of Estanislao and Deogracias Militar*, 526 Phil. 788, 799-800 (2006).

<sup>17</sup> See *Canadian Opportunities Unlimited, Inc. v. Dalangin, Jr.*, G.R. No. 172223, February 6, 2012, 665 SCRA 21, 31.

<sup>18</sup> 381 Phil. 355, 368 (2000) as cited in *Ereña v. Querrer-Kauffman*, 525 Phil. 381, 401-402 (2006).

fraudulent, the mortgage contract and any foreclosure sale arising therefrom are given effect by reason of public policy. This is the doctrine of “mortgagee in good faith” based on the rule that all persons dealing with the property covered by a Torrens Certificate 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 the 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.

In *Bank of Commerce v. Spouses San Pablo, Jr.*,<sup>19</sup> we declared that indeed, a mortgagee has a right to rely in good faith on the certificate of title of the mortgagor of the property offered as security, and in the absence of any sign that might arouse suspicion, the mortgagee has no obligation to undertake further investigation.

However, in *Bank of Commerce v. Spouses San Pablo, Jr.*,<sup>20</sup> we also ruled that “[i]n cases where the mortgagee does not directly deal with the registered owner of real property, the law requires that a higher degree of prudence be exercised by the mortgagee.” Specifically, we cited *Abad v. Sps. Guimba*<sup>21</sup> where we held,

“x x x While one who buys from the registered owner does not need to look behind the certificate of title, one who buys from one who is *not* the registered owner is expected to examine not only the certificate of title but *all* factual circumstances necessary for [one] to determine if there are any flaws in the title of the transferor, or in [the] capacity to transfer the land.” Although the instant case does not involve a sale but only a mortgage, the same rule applies inasmuch as the law itself includes a mortgagee in the term “purchaser.”

Thus, where the mortgagor is not the registered owner of the property but is merely an attorney-in-fact of the same, it is incumbent upon the mortgagee to exercise greater care and a higher degree of prudence in dealing with such mortgagor.<sup>22</sup> Recently, in *Land Bank of the Philippines v. Poblete*,<sup>23</sup> we affirmed *Bank of Commerce v. Spouses San Pablo, Jr.*:

Based on the evidence, Land Bank processed Maniego’s loan application upon his presentation of OCT No. P-12026, which was still under the name of Poblete. Land Bank even ignored the fact that Kapantay previously used Poblete’s title as collateral in its loan account with Land Bank. In *Bank of Commerce v. San Pablo, Jr.*, we held that when “the person applying for the loan is other than the registered owner of the real property being mortgaged, [such fact] should have already raised a red flag and which should have induced the Bank x x x to make inquiries into and confirm x x x [the] authority to mortgage x x x. A person who deliberately ignores a significant fact that could create suspicion in an otherwise reasonable person is not an innocent purchaser for value.”

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<sup>19</sup> 550 Phil. 805, 821 (2007).

<sup>20</sup> Id.

<sup>21</sup> 503 Phil. 321, 331-332 (2005).

<sup>22</sup> *Bank of Commerce v. Spouses San Pablo, Jr.*, supra note 19.

<sup>23</sup> G.R. No. 196577, February 25, 2013, 691 SCRA 613, 626-627.

Moreover, in a long line of cases, we have consistently enjoined banks to exert a higher degree of diligence, care, and prudence than individuals in handling real estate transactions.

In *Cruz v. Bancom Finance Corporation*,<sup>24</sup> we declared:

Respondent, however, is not an ordinary mortgagee; it is a mortgagee-bank. As such, unlike private individuals, it is expected to exercise greater care and prudence in its dealings, including those involving registered lands. A banking institution is expected to exercise due diligence before entering into a mortgage contract. The ascertainment of the status or condition of a property offered to it as security for a loan must be a standard and indispensable part of its operations.

In *Ursal v. Court of Appeals*,<sup>25</sup> we held that where the mortgagee is a bank, it cannot rely merely on the certificate of title offered by the mortgagor in ascertaining the status of mortgaged properties. Since its business is impressed with public interest, the mortgagee-bank is duty-bound to be more cautious even in dealing with registered lands.<sup>26</sup> Indeed, the rule that person dealing with registered lands can rely solely on the certificate of title does not apply to banks. Thus, before approving a loan application, it is a standard operating practice for these institutions to conduct an ocular inspection of the property offered for mortgage and to verify the genuineness of the title to determine the real owners thereof. The apparent purpose of an ocular inspection is to protect the “true owner” of the property as well as innocent third parties with a right, interest or claim thereon from a usurper who may have acquired a fraudulent certificate of title thereto.<sup>27</sup>

In *Metropolitan Bank and Trust Co. v. Cabilzo*,<sup>28</sup> we explained the socio-economic role of banks and the reason for bestowing public interest on the banking system:

We never fail to stress the remarkable significance of a banking institution to commercial transactions, in particular, and to the country's economy in general. The banking system is an indispensable institution in the modern world and plays a vital role in the economic life of every civilized nation. Whether as mere passive entities for the safekeeping and saving of money or as active instruments of business and commerce, banks have become an ubiquitous presence among the people, who have come to regard them with respect and even gratitude and, most of all, confidence.

In this case, we find that the respondent Malarayat Rural Bank fell short of the required degree of diligence, prudence, and care in approving the loan application of the spouses Guia.

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<sup>24</sup> 429 Phil. 225, 239 (2002).

<sup>25</sup> 509 Phil. 628, 642 (2005).

<sup>26</sup> *Heirs of Manlapat v. Court of Appeals*, 498 Phil. 453, 473 (2005).

<sup>27</sup> *Philippine Banking Corporation v. Dy*, G.R. No. 183774, November 14, 2012, 685 SCRA 565, 575.

<sup>28</sup> 539 Phil. 316, 329 (2006).

Respondent should have diligently conducted an investigation of the land offered as collateral. Although the *Report of Inspection and Credit Investigation* found at the dorsal portion of the Application for Agricultural Loan<sup>29</sup> proved that the respondent Malarayat Rural Bank inspected the land, the respondent turned a blind eye to the finding therein that the “lot is planted [with] sugarcane with annual yield (crops) in the amount of ₱15,000.”<sup>30</sup> We disagree with respondent’s stance that the mere planting and harvesting of sugarcane cannot reasonably trigger suspicion that there is adverse possession over the land offered as mortgage. Indeed, such fact should have immediately prompted the respondent to conduct further inquiries, especially since the spouses Guia were not the registered owners of the land being mortgaged. They merely derived the authority to mortgage the lot from the Special Power of Attorney allegedly executed by the late Fermina M. Guia. Hence, it was incumbent upon the respondent Malarayat Rural Bank to be more cautious in dealing with the spouses Guia, and inquire further regarding the identity and possible adverse claim of those in actual possession of the property.

Pertinently, in *Land Bank of the Philippines v. Poblete*,<sup>31</sup> we ruled that “[w]here the mortgagee acted with haste in granting the mortgage loan and did not ascertain the ownership of the land being mortgaged, as well as the authority of the supposed agent executing the mortgage, it cannot be considered an innocent mortgagee.”

Since the subject land was not mortgaged by the owner thereof and since the respondent Malarayat Rural Bank is not a mortgagee in good faith, said bank is not entitled to protection under the law. The unregistered sale in favor of the spouses Arguelles must prevail over the mortgage lien of respondent Malarayat Rural Bank.

**WHEREFORE**, the petition for review on certiorari is **GRANTED**. The Decision dated December 19, 2011 and Resolution dated February 6, 2012 of the Court of Appeals in CA-G.R. CV No. 92555 are **REVERSED** and **SET ASIDE**. The Decision dated July 29, 2008 of the Regional Trial Court, Branch 86, of Taal, Batangas, in Civil Case No. 66 is **REINSTATED** and **UPHELD**.

No pronouncement as to costs.

**SO ORDERED.**

  
**MARTIN S. VILLARAMA, JR.**  
Associate Justice

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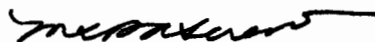
<sup>29</sup> Records, p. 34.

<sup>30</sup> *Rollo*, p. 145.

<sup>31</sup> *Supra* note 23, at 628, citing *San Pedro v. Ong*, G.R. No. 177598, October 17, 2008, 569 SCRA 767, 786 and *Instrade, Inc. v. Court of Appeals*, 395 Phil. 791, 802 (2000).



WE CONCUR:




**MARIA LOURDES P. A. SERENO**

Chief Justice

*Chairperson*

  
**TERESITA J. LEONARDO-DE CASTRO**  
Associate Justice

  
**LUCAS P. BERSAMIN**  
Associate Justice



**BIENVENIDO L. REYES**

Associate Justice

## CERTIFICATION

Pursuant to Section 13, Article VIII of the 1987 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.



**MARIA LOURDES P. A. SERENO**

Chief Justice

ent.