

SECOND DIVISION

[G.R. NO. 132161, January 17, 2005]

**CONSOLIDATED RURAL BANK (CAGAYAN VALLEY), INC.,
PETITIONER, VS. THE HONORABLE COURT OF APPEALS AND
HEIRS OF TEODORO DELA CRUZ, RESPONDENTS.**

D E C I S I O N

TINGA, J.:

Petitioner Consolidated Rural Bank, Inc. of Cagayan Valley filed the instant *Petition for Certiorari*^[1] under Rule 45 of the Revised Rules of Court, seeking the review of the *Decision*^[2] of the Court of Appeals Twelfth Division in CA-G.R. CV No. 33662, promulgated on 27 May 1997, which reversed the judgment^[3] of the lower court in favor of petitioner; and the *Resolution*^[4] of the Court of Appeals, promulgated on 5 January 1998, which reiterated its *Decision* insofar as respondents Heirs of Teodoro dela Cruz (the Heirs) are concerned.

From the record, the following are the established facts:

Rizal, Anselmo, Gregorio, Filomeno and Domingo, all surnamed Madrid (hereafter the Madrid brothers), were the registered owners of Lot No. 7036-A of plan Psd-10188, Cadastral Survey 211, situated in San Mateo, Isabela per Transfer Certificate of Title (TCT) No. T-8121 issued by the Register of Deeds of Isabela in September 1956.^[5]

On 23 and 24 October 1956, Lot No. 7036-A was subdivided into several lots under subdivision plan Psd- 50390. One of the resulting subdivision lots was Lot No. 7036-A-7 with an area of Five Thousand Nine Hundred Fifty-Eight (5,958) square meters.^[6]

On 15 August 1957, Rizal Madrid sold part of his share identified as Lot No. 7036-A-7, to Aleja Gamiao (hereafter Gamiao) and Felisa Dayag (hereafter, Dayag) by virtue of a *Deed of Sale*,^[7] to which his brothers Anselmo, Gregorio, Filomeno and Domingo offered no objection as evidenced by their *Joint Affidavit* dated 14 August 1957.^[8] The deed of sale was not registered with the Office of the Register of Deeds of Isabela. However, Gamiao and Dayag declared the property for taxation purposes in their names on March 1964 under Tax Declaration No. 7981.^[9]

On 28 May 1964, Gamiao and Dayag sold the southern half of Lot No. 7036-A-7, denominated as Lot No. 7036-A-7-B, to Teodoro dela Cruz,^[10] and the northern half, identified as Lot No. 7036-A-7-A,^[11] to Restituto Hernandez.^[12] Thereupon, Teodoro dela Cruz and Restituto Hernandez took possession of and cultivated the portions of the property respectively sold to them.^[13]

Later, on 28 December 1986, Restituto Hernandez donated the northern half to his daughter, Evangeline Hernandez-del Rosario.^[14] The children of Teodoro dela Cruz continued possession of the southern half after their father's death on 7 June 1970.

In a *Deed of Sale*^[15] dated 15 June 1976, the Madrid brothers conveyed all their rights and interests over Lot No. 7036-A-7 to Pacifico Marquez (hereafter, Marquez), which the former confirmed^[16] on 28 February 1983.^[17] The deed of sale was registered with the Office of the Register of Deeds of Isabela on 2 March 1982.^[18]

Subsequently, Marquez subdivided Lot No. 7036-A-7 into eight (8) lots, namely: Lot Nos. 7036-A-7-A to 7036-A-7-H, for which TCT Nos. T-149375 to T-149382 were issued to him on 29 March 1984.^[19] On the same date, Marquez and his spouse, Mercedita Mariana, mortgaged Lots Nos. 7036-A-7-A to 7036-A-7-D to the Consolidated Rural Bank, Inc. of Cagayan Valley (hereafter, CRB) to secure a loan of One Hundred Thousand Pesos (P100,000.00).^[20] These deeds of real estate mortgage were registered with the Office of the Register of Deeds on 2 April 1984.

On 6 February 1985, Marquez mortgaged Lot No. 7036-A-7-E likewise to the Rural Bank of Cauayan (RBC) to secure a loan of Ten Thousand Pesos (P10,000.00).^[21]

As Marquez defaulted in the payment of his loan, CRB caused the foreclosure of the mortgages in its favor and the lots were sold to it as the highest bidder on 25 April 1986.^[22]

On 31 October 1985, Marquez sold Lot No. 7036-A-7-G to Romeo Calixto (Calixto).^[23]

Claiming to be null and void the issuance of TCT Nos. T-149375 to T-149382; the foreclosure sale of Lot Nos. 7036-A-7-A to 7036-A-7-D; the mortgage to RBC; and the sale to Calixto, the Heirs-now respondents herein-represented by Edronel dela Cruz, filed a case^[24] for reconveyance and damages the southern portion of Lot No. 7036-A (hereafter, the subject property) against Marquez, Calixto, RBC and CRB in December 1986.

Evangeline del Rosario, the successor-in-interest of Restituto Hernandez, filed with leave of court a *Complaint in Intervention*^[25] wherein she claimed the northern portion of Lot No. 7036-A-7.

In the *Answer to the Amended Complaint*,^[26] Marquez, as defendant, alleged that apart from being the first registrant, he was a buyer in good faith and for value. He also argued that the sale executed by Rizal Madrid to Gamiao and Dayag was not binding upon him, it being unregistered. For his part, Calixto manifested that he had no interest in the subject property as he ceased to be the owner thereof, the same having been reacquired by defendant Marquez.^[27]

CRB, as defendant, and co-defendant RBC insisted that they were mortgagees in good faith and that they had the right to rely on the titles of Marquez which were free from any lien or encumbrance.^[28]

After trial, the Regional Trial Court, Branch 19 of Cauayan, Isabela (hereafter, RTC) handed down a decision in favor of the defendants, disposing as follows:

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

1. Dismissing the amended complaint and the complaint in intervention;
2. Declaring Pacifico V. Marquez the lawful owner of Lots 7036-A-7 now Lots 7036-A-7-A to 7036-A-7-H, inclusive, covered by TCT Nos. T-149375 to T-149382, inclusive;
3. Declaring the mortgage of Lots 7036-A-7-A, 7036-A-7-B, 7036-A-7-C and 7036-A-7-D in favor of the defendant Consolidated Rural Bank (Cagayan Valley) and of Lot 7036-A-7-E in favor of defendant Rural Bank of Cauayan by Pacifico V. Marquez valid;
4. Dismissing the counterclaim of Pacifico V. Marquez; and
5. Declaring the Heirs of Teodoro dela Cruz the lawful owners of the lots covered by TCT Nos. T-33119, T-33220 and T-7583.

No pronouncement as to costs.

SO ORDERED.^[29]

In support of its decision, the RTC made the following findings:

With respect to issues numbers 1-3, the Court therefore holds that the sale of Lot 7036-A-7 made by Rizal Madrid to Aleja Gamiao and Felisa Dayag and the subsequent conveyances to the plaintiffs and intervenors are all valid and the Madrid brothers are bound by said contracts by virtue of the confirmation made by them on August 14, 1957 (Exh. B).

Are the defendants Pacifico V. Marquez and Romeo B. Calixto buyers in good faith and for value of Lot 7036-A-7?

It must be borne in mind that good faith is always presumed and he who imputes bad faith has the burden of proving the same (Art. 527, Civil Code). The Court has carefully scrutinized the evidence presented but finds nothing to show that Marquez was aware of the plaintiffs' and intervenors' claim of ownership over this lot. TCT No. T-8121 covering said property, before the issuance of Marquez' title, reveals nothing about the plaintiffs' and intervenors' right thereto for it is an admitted fact that the conveyances in their favor are not registered.

The Court is therefore confronted with two sales over the same property. Article 1544 of the Civil Code provides:

"ART. 1544. If the same thing should have been sold to different vendees, the ownership shall be transferred to the person who may have first taken possession thereof in good

faith, if it should be movable property.

Should it be immovable property, the ownership shall belong to the person acquiring it who in good faith first recorded it in the Registry of Property. x x x " (Underscoring supplied).

From the foregoing provisions and in the absence of proof that Marquez has actual or constructive knowledge of plaintiffs' and intervenors' claim, the Court has to rule that as the vendee who first registered his sale, Marquez' ownership over Lot 7036-A-7 must be upheld.^[30]

The Heirs interposed an appeal with the Court of Appeals. In their *Appellant's Brief*,^[31] they ascribed the following errors to the RTC: (1) it erred in finding that Marquez was a buyer in good faith; (2) it erred in validating the mortgage of the properties to RBC and CRB; and (3) it erred in not reconveying Lot No. 7036-A-7-B to them.^[32]

Intervenor Evangeline del Rosario filed a separate appeal with the Court of Appeals. It was, however, dismissed in a *Resolution* dated 20 September 1993 for her failure to pay docket fees. Thus, she lost her standing as an appellant.^[33]

On 27 May 1997, the Court of Appeals rendered its assailed *Decision*^[34] reversing the RTC's judgment. The dispositive portion reads:

WHEREFORE, the decision appealed from is hereby REVERSED and SET ASIDE. Accordingly, judgment is hereby rendered as follows:

1. Declaring the heirs of Teodoro dela Cruz the lawful owners of the southern half portion and Evangeline Hernandez-del Rosario the northern half portion of Lot No. 7036-A-7, now covered by TCT Nos. T-149375 to T-149382, inclusive;
2. Declaring null and void the deed of sale dated June 15, 1976 between Pacifico V. Marquez and the Madrid brothers covering said Lot 7036-A-7;
3. Declaring null and void the mortgage made by defendant Pacifico V. Marquez of Lot Nos. 7036-A-7-A, 7036-A-7-B, 7036-A-7-C and 7036-A-7-D in favor of the defendant Consolidated Rural Bank and of Lot 7036-A-7-E in favor of defendant Rural Bank of Cauayan; and
4. Ordering Pacifico V. Marquez to reconvey Lot 7036-A-7 to the heirs of Teodoro dela Cruz and Evangeline Hernandez-del Rosario.

No pronouncement as to costs.

SO ORDERED.^[35]

In upholding the claim of the Heirs, the Court of Appeals held that Marquez failed to prove that he was a purchaser in good faith and for value. It noted that while Marquez was the first registrant, there was no showing that the registration of the deed of sale in his favor was coupled with good faith. Marquez admitted having knowledge that the subject property was "being taken" by the Heirs at the time of

the sale.^[36] The Heirs were also in possession of the land at the time. According to the *Decision*, these circumstances along with the subject property's attractive location—it was situated along the National Highway and was across a gasoline station—should have put Marquez on inquiry as to its status. Instead, Marquez closed his eyes to these matters and failed to exercise the ordinary care expected of a buyer of real estate.^[37]

Anent the mortgagees RBC and CRB, the Court of Appeals found that they merely relied on the certificates of title of the mortgaged properties. They did not ascertain the status and condition thereof according to standard banking practice. For failure to observe the ordinary banking procedure, the Court of Appeals considered them to have acted in bad faith and on that basis declared null and void the mortgages made by Marquez in their favor.^[38]

Dissatisfied, CRB filed a *Motion for Reconsideration*^[39] pointing out, among others, that the *Decision* promulgated on 27 May 1997 failed to establish good faith on the part of the Heirs. Absent proof of possession in good faith, CRB avers, the Heirs cannot claim ownership over the subject property.

In a *Resolution*^[40] dated 5 January 1998, the Court of Appeals stressed its disbelief in CRB's allegation that it did not merely rely on the certificates of title of the properties and that it conducted credit investigation and standard ocular inspection. But recalling that intervenor Evangeline del Rosario had lost her standing as an appellant, the Court of Appeals accordingly modified its previous *Decision*, as follows:

WHEREFORE, the decision dated May 27, 1997, is hereby MODIFIED to read as follows:

WHEREFORE, the decision appealed from is hereby REVERSED and SET ASIDE insofar as plaintiffs-appellants are concerned. Accordingly, judgment is hereby rendered as follows:

1. Declaring the Heirs of Teodoro dela Cruz the lawful owners of the southern half portion of Lot No. 7036-A-7;
2. Declaring null and void the deed of sale dated June 15, 1976 between Pacifico V. Marquez and the Madrid brothers insofar as the southern half portion of Lot NO. (sic) 7036-A-7 is concerned;
3. Declaring the mortgage made by defendant Pacifico V. Marquez in favor of defendant Consolidated Rural Bank (Cagayan Valley) and defendant Rural Bank of Cauayan as null and void insofar as the southern half portion of Lot No. 7036-A-7 is concerned;
4. Ordering defendant Pacifico V. Marquez to reconvey the southern portion of Lot No. 7036-A-7 to the Heirs of Teodoro dela Cruz.

No pronouncement as to costs.

SO ORDERED.^[41]