

FIRST DIVISION

[G.R. No. 140398, September 11, 2001]

COL. FRANCISCO DELA MERCED, SUBSTITUTED BY HIS HEIRS, NAMELY, BLANQUITA E. DELA MERCED, LUIS CESAR DELA MERCED, BLANQUITA E. DELA MERCED (NEE MACATANGAY) AND MARIA OLIVIA M. PAREDES, PETITIONERS, VS. GOVERNMENT SERVICE INSURANCE SYSTEM (GSIS) AND SPOUSES VICTOR AND MILAGROS MANLONGAT, RESPONDENTS.

DECISION

YNARES-SANTIAGO, J.:

This is a petition for review under Rule 45 of the Rules of Court, seeking to set aside the decision of the Court of Appeals dated May 21, 1999 in CA-G.R. CV No. 55034, [1] which reversed the decision of the Regional Trial Court of Pasig, Metro Manila, Branch 160, in Civil Cases Nos. 51410 and 51470. [2]

The antecedent facts, as culled from the records, are as follows:

Governor Jose C. Zulueta and his wife Soledad Ramos were the owners of parcels of land consisting of 100,986 square meters, known as the Antonio Village Subdivision, Orambo, Pasig City. The parcels of land were registered in their names under Transfer Certificates of Title Nos. 26105, [3] 37177 [4] and 50256 [5] of the Registry of Deeds of the Province of Rizal.

On September 25, 1956, the Zuluetas obtained a loan of P520,000.00 from the Government Service Insurance System, as security for which they mortgaged the lands covered by TCT No. 26105. It was expressly stipulated in the mortgage deed that certain lots within TCT No. 26105 shall be excluded from the mortgage because they have been either previously sold to third parties or donated to the government.

The Zulueta spouses obtained an additional loan from the GSIS on March 6, 1957 in the amount of P190,000.00, as security for which they mortgaged the land covered by TCT No. 50256. On April 4, 1957, the Zuluetas obtained another loan from GSIS this time in the amount of P1,000,000.00, which they secured by mortgaging parcels of land included in TCT Nos. 26105 and 37177.

On September 3, 1957, the Zulueta spouses executed a contract to sell whereby they undertook to sell to Francisco dela Merced and Evarista Mendoza lots identified as Lots 6, 7, 8 and 10, Block 2 (formerly Block 4), Antonio Subdivision covered by TCT No. 26105. [6] On October 26, 1972, after full payment by Col. dela Merced of the purchase price, a Deed of Absolute Sale was executed by the Zuluetas in his favor.

On October 15, 1957, another loan was extended by GSIS to the Zulueta spouses in

the amount of P1,398,000.00, secured by a mortgage on the properties included in TCT Nos. 26105 and 50256.

The Zuluetas defaulted in the payment of their loans. Thus, GSIS extrajudicially foreclosed the mortgages and, at the foreclosure sale held on August 16, 1974, GSIS was awarded the mortgaged properties as the highest bidder. Since the Zuluetas did not redeem the properties within the reglementary period, title to the properties was consolidated to GSIS.

Later, on March 25, 1982, GSIS held a sale at public auction of its acquired assets. Elizabeth D. Manlongat and Ma. Therese D. Manlongat, the children of Victor and Milagros Manlongat, purchased Lot 6, Block 2 of Antonio Village.^[7]

On August 22, 1984, a complaint for declaratory relief, injunction and damages, docketed as Civil Case No. 51410, was filed with the Regional Trial Court of Pasig, Branch 160, by Victor Lemonsito and several others,^[8] against Benjamin Cabusao, in his capacity as In-Charge of the Municipal Task Force on Squatters of the Municipal Engineer's Office of Pasig, spouses Domini and Olivia Suarez and spouses Victor and Milagros Manlongat.^[9] Plaintiffs therein averred that they were owners of houses in various lots in Antonio Village, having constructed the same with the permission of the late Jose C. Zulueta before the same was foreclosed by GSIS; that defendants Suarez and Manlongat claimed to be vendees of lots in Antonio Village; and that defendant Cabusao was threatening to demolish plaintiffs' houses on the alleged ground that they were squatters on the lots.

On September 7, 1984, Col. dela Merced also instituted Civil Case No. 51470 with the Regional Trial Court of Pasig, Branch 154, against GSIS and the spouses Zulueta, praying, among others, that the foreclosure sale, insofar as his lots were concerned, be declared null and void.^[10]

Meanwhile, Col. dela Merced filed a complaint-in-intervention in Civil Case No. 51410,^[11] wherein he prayed that plaintiffs' complaint be dismissed and defendants' titles to lots 6, 7 and 8, Block 2 be declared null and void.

The complaint in Civil Case No. 51410 was dismissed for failure of plaintiffs to prosecute, but the complaint-in-intervention of Col. dela Merced was allowed to proceed against defendants Suarez and Manlongat.^[12]

On September 5, 1986, upon motion of plaintiff Col. dela Merced, the trial court ordered the consolidation of Civil Case No. 51470 with Civil Case No. 51410.^[13]

On October 23, 1987, the Regional Trial Court of Pasig, Branch 160, rendered its decision, the dispositive portion of which reads:

WHEREFORE, judgment is hereby rendered in Civil Case No. 51410:

1. Declaring Lots 6, 7, 8 and 10 of Block 2, and Lot 8 of Block 8 which are the subject of the action, as the exclusive property of the intervenor. Consequently, the certificates of

Title of the defendants covering said property lots are declared null and void;

and in Civil Case No. 51470:

1. Declaring the foreclosure proceedings conducted by defendant GSIS, insofar as they affected the lots in question, as null and void, including the consolidation of ownership thereof by the GSIS, and the sale of the lots to defendant Manlongat spouses;
2. Declaring the certificates of title issued to GSIS covering the aforesaid lots, as well as those issued to defendant Manlongat spouses by virtue of the sale executed by the former in favor of the latter, as null and void; and directing the Office of the Register of Deeds of Pasig, Metro Manila, to issue a new one in the name of the plaintiff Francisco Mendoza dela Merced;
3. Ordering the defendants, jointly and severally, to pay the plaintiff the sums of P100,000.00 as moral damages; P50,000.00 as exemplary damages; and P50,000.00 by way of attorney's fees; plus costs.

SO ORDERED.^[14]

The GSIS and Manlongat spouses filed separate appeals. The Court of Appeals held that the trial court erred in declaring defendants as having waived their right to present evidence. Thus, on April 19, 1994, the Court of Appeals set aside the decision of the trial court and remanded the case to the lower court for the reception of evidence of defendants Manlongat and GSIS.^[15]

In the meantime, on March 19, 1988, Col. dela Merced passed away and was substituted by his heirs.

On December 27, 1996, the Regional Trial Court of Pasig, Branch 160, rendered a decision, the dispositive portion of which reads:

WHEREFORE, judgment is hereby rendered:

1. Declaring the foreclosure sale of Lot Nos. 6, 7, 8 and 10 of Block 2, and Lot 8 of Block 8 and certificate of Titles issued to GSIS covering the aforesaid lots as well as those issued to defendant Manlongat spouses as null and void;
2. Declaring plaintiff-intervenor as the true and lawful owner of the

aforesaid lots;

3. Ordering the Register of Deeds of Pasig, Metro Manila to issue new titles in the name of plaintiff-intervenor or his substituted heirs namely Blanquita dela Merced-Macatangay, Blanquita Errea dela Merced, Luis dela Merced and Maria Olivia dela Merced Paredes;

4. Ordering defendants GSIS and spouses Manlongat jointly and severally to pay attorney's fees of P20,000.00 and to pay the costs.

SO ORDERED. ^[16]

The trial court made the following findings:

The mortgage contract signed by the Zulueta spouses of the property covered by TCT No. 26105 in favor of GSIS (Exh. "C-C-1" Merced) contained the following provisions:

"Note:

The following lots which form part of TCT No. 26105 are not covered by this mortgage contract due to sale to third parties and donation to government.

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|----|--------------------------------------------------|---------------------|
| 1. | <i>Lots No. 1 to 13, Block No. 16, 138 sq.m.</i> | |
| 2. | <i>Lots Nos. 1 to 11, Block No. 4, 660 sq.m.</i> | |
| | <i>2</i> | |
| 3. | <i>Lot No. 15, Block No. 3</i> | <i>487 sq.m.</i> |
| 4. | <i>Lot No. 17, Block No. 4</i> | <i>263 sq.m.</i> |
| 5. | <i>Lot No. 1, Block No. 7</i> | <i>402 sq.m.</i> |
| 6. | <i>Road Lots Nos. 1, 2, 3 & 4</i> | <i>22,747 sq.m.</i> |

Evidently, lot numbers 1 to 11, Block 2 to include plaintiff-intervenor's lots were excluded from the mortgage. In fact, in a letter dated October 1, 1956, defendant GSIS confirmed that portions of the subdivision such as lots Nos. 1 to 11, Block 2 x x x have already been sold x x x." (Exh. "B-1" Merced) The intent of the parties was clear to exclude from the mortgage the properties claimed by plaintiff-intervenor, among others, where he introduced improvements since 1955. On October 26, 1972, the spouses Zulueta executed the corresponding deed of sale in favor of plaintiff-intervenor (Exh. "C")."

The contention of defendant GSIS and defendants Victor and Milagros Manlongat that Lot Nos. 6, 7, 8 & 10 are not the lots excluded from the mortgage by the spouses Zulueta to the GSIS cannot be given credence. Evidence reveal that lots 6, 7, 8 and 10, Block 2, with a total area of 1,405 square meters of the Antonio Village Subdivision were excluded from the September 25, 1956 mortgage contract executed by defendants in favor of GSIS. (Exh. "C", "C-1" Merced, 9-1-95) Defendant GSIS in

fact had admitted in its answer, the letter to plaintiff acknowledging that there has been no problem with respect to Lot 8, Block 8 of the said property. Obviously, defendant recognized the ownership of intervenor of the mentioned lots. It is further to be noted that plan Pcs-5889 was not yet in existence when the mortgage was executed in 1956. Besides defendant GSIS had knowledge of the possession of intervenor. While the deed of sale between the Zulueta and plaintiff-intervenor was never registered nor annotated in the title and executed only after one (1) year, defendant GSIS had knowledge of the possession of intervenor of the lots; that defendant GSIS was not acting in good faith when it accepted the mortgage of the questioned lots. Plaintiff-intervenor in 1957 built a house and introduced improvement and built a house of strong structure on lots 6 & 7 and with the other lots serving as backyard and for 28 years had paid dues on the lots.^[17]

Respondents appealed the decision to the Court of Appeals, where the same was docketed as CA-G.R. CV No. 55034. On May 21, 1999, the Court of Appeals reversed the decision of the trial court. Petitioners filed a Motion for Reconsideration which was denied on October 4, 1999.

Hence, the instant petition for review, raising the following assignments of error:

FIRST ASSIGNMENT OF ERROR

THE COURT A *QUO* ACTED CONTRARY TO LAW AND JURISPRUDENCE IN TOTALLY DISREGARDING THE ADMISSION OF DEFENDANT GSIS THAT THE LOTS IN QUESTION WERE EXCLUDED FROM THE MORTGAGE

SECOND ASSIGNMENT OF ERROR

THE COURT A *QUO* ACTED CONTRARY TO LAW AND JURISPRUDENCE IN NOT RULING THAT (A) PLAINTIFF HAS BEEN IN POSSESSION OF THE SUBJECT LOTS SINCE 1955 CONTINUOUSLY UNTIL THE PRESENT AND (B) GSIS HAD KNOWLEDGE OF PLAINTIFF'S POSSESSION

THIRD ASSIGNMENT OF ERROR

THE COURT A *QUO* ACTED CONTRARY TO LAW AND JURISPRUDENCE IN ITS FAILURE TO APPRECIATE THE SIGNIFICANCE OF PLAINTIFF'S CONTINUOUS OPEN AND ADVERSE POSSESSION IN THE CONCEPT OF OWNER FOR 28 YEARS AND THE ACTUAL KNOWLEDGE OF GSIS OF SUCH POSSESSION

FOURTH ASSIGNMENT OF ERROR