

SECOND DIVISION

[G.R. No. 228011, February 10, 2021]

DANILO SANTIAGO F. JIMENEZ, AS REPRESENTED BY HIS ATTORNEY-IN-FACT DR. SONIA R. JIMENEZ-CATARROJA, PETITIONER, VS. DAMIAN F. JIMENEZ, JR., AND THE REGISTER (REGISTRAR) OF DEEDS OF QUEZON CITY, ARTURO C. CALUBAD, ANTONIO KEH AND EX-OFFICIO SHERIFF, ATTY. MERCEDES S. GATMAYTAN, NOW ATTY. PERLITA V. ELE, RESPONDENTS.

DECISION

LOPEZ, M., J.:

The doctrine of mortgagee in good faith is not based solely on the indefeasibility of the certificate of title - it is also based on the very nature and purpose of a mortgage. The protection granted to a mortgagee in good faith extends to the purchaser at a public auction even if he or she had notice of the adverse claim. Otherwise, the value of the mortgage could be easily destroyed by a subsequent record of an adverse claim, for no one would purchase at a foreclosure sale if bound by the posterior claim.^[1]

This Petition for Review on *Certiorari*^[2] seeks to reverse the Court of Appeals' (CA) Decision^[3] dated May 19, 2016 and Resolution^[4] dated October 25, 2016, which affirmed the Regional Trial Court's (RTC) Decision^[5] dated December 20, 2012 in Civil Case No. Q-02-48055. The RTC upheld Arturo S. Calubad (Calubad) and Antonio Keh's (Keh) right over the disputed property as innocent mortgagees for value and good faith.

ANTECEDENTS

Corona F. Jimenez (Corona) is the registered owner of a 532-square meter lot^[6] covered by Transfer Certificate of Title (TCT) No. RT-122097 (126876).^[7] Danilo Santiago F. Jimenez (Danilo), Sonia F. Jimenez-Catarroja (Sonia), Vilma T. Jimenez-Lagdameo, Federico Dalton F. Jimenez, and Chona F. Jimenez-Veluz (collectively, Jimenez siblings) and Damian F. Jimenez, Jr. (Damian) are her children.^[8] Corona died on January 16, 2002.

During the settlement of the estate, the Jimenez siblings discovered a Deed of Donation allegedly executed by Corona in favor of Damian on August 31, 2000 over the 532-square meter property.^[9] By virtue of the Deed of Donation, TCT No. RT-122097 (126876) was cancelled and in lieu thereof TCT No. N-217728 was issued in the name of Damian on September 7, 2000.^[10] On May 21, 2001, Damian mortgaged the property to Calubad and Keh in consideration of a P7,000,000.00 - loan. On the same day, the mortgage was annotated on TCT No. N-21 7728.^[11] The

Jimenez siblings learned about the mortgage, but only Sonia registered her Affidavit of Adverse Claim, which was annotated at the back of TCT No. N-217728 on July 12, 2002.^[12]

On October 12, 2002, Sonia was informed that the property was scheduled for auction on October 24, 2002. This prompted the Jimenez siblings to file a complaint for the annulment of the Deed of Donation and TCT No. N-217728, as well as the cancellation and annulment of the Deed of Real Estate Mortgage, with prayer for preliminary injunction before the RTC of Quezon City on October 21, 2002.^[13] The RTC denied the prayer for injunction, hence, the extrajudicial sale pushed through as scheduled. Calubad and Keh emerged as the highest bidders. Consequently, a Certificate of Sale dated November 3, 2002 was issued. On December 11, 2003, the title to the property was consolidated and TCT No. N-257432 was issued in favor of Calubad and Keh.^[14]

In a Decision^[15] dated December 20, 2012, the RTC found that Corona's signature on the Deed of Donation was forged, and thus declared the Deed void. Notwithstanding, the RTC sustained the validity of TCT No. N-257432 issued in the name of Calubad and Keh as they were found to be innocent mortgagees for value and good faith. Thus:

WHEREFORE, in view of the foregoing, judgement is hereby rendered:

- 1) **declaring** the signature of Corona Vda. De Jimenez in the Deed of Donation dated August 31, 2000 as a product of forgery. The said Deed of Donation is hereby declared null and void. The TCT No. 257432 in the name of Arturo Calubad and Antonio Keh is however recognized.

x x x x

SO ORDERED.^[16] (Emphases in the original.)

On appeal, the CA agreed with the RTC that Calubad and Keh are mortgagees in good faith; hence, their right over the property should be recognized.^[17] The dispositive portion of the May 19, 2016 Decision reads:

WHEREFORE, premises considered, the appeal is **DENIED**. The Decision of the Regional Trial Court, Branch 227 of Quezon City dated 20 December 2012 is hereby **AFFIRMED**.

SO ORDERED.^[18] (Emphases in the original.)

Only Danilo filed a motion for reconsideration, but was denied on October 25, 2016.^[19] Hence, this petition.

Relying upon the Court's ruling in *Homeowners Savings and Loan Bank v. Felonia*,^[20] (HSLB) Danilo argues that while Calubad and Keh may be mortgagees in good faith, they are not purchasers in good faith as they were aware of Sonia's adverse claim when they purchased the property during the public auction on October 24, 2002. As such, they have no right over the disputed property. TCT No. N-257432

should thus be cancelled and TCT No. RT-122097 (126876) issued in the name of Corona should be reinstated.

For their part, Calubad and Keh contend that *HSLB* is not on all fours with this case.^[21] Instead, the case of *Bank of the Philippine Islands (BPI) v. Noblejas*,^[22] wherein the Court ruled that any subsequent adverse claim will not prejudice the mortgagee's right as a purchaser in the foreclosure sale, applies.^[23]

RULING

We deny the petition.

The determination of good faith or lack of it is a factual matter, which cannot be entertained in a Petition for Review on *Certiorari* under Rule 45.^[24] As such, the Court generally defers to the factual findings of the lower courts unless the case falls under any of the jurisprudentially-recognized exceptions^[25] to this rule. Here, we see no reason to depart from the uniform factual findings and conclusion of the RTC and the CA.

In *Cavite Development Bank v. Lim*,^[26] the Court explained the doctrine of mortgagee in good faith as follows:

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 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 the 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.^[27] (Emphasis supplied.)

The doctrine applies when the following requisites concur, namely: (a) the mortgagor is not the rightful owner of, or does not have valid title to, the property;^[28] (b) the mortgagor succeeded in obtaining a Torrens title over the property;^[29] (c) the mortgagor succeeded in mortgaging the property to another person;^[30] (d) the mortgagee relied on what appears on the title and there exists no facts and circumstances that would compel a reasonably cautious man to inquire into the status of the property;^[31] and (e) the mortgage contract was registered.^[32] All these requisites were satisfied in this case, viz.: (a) Damian was found to have no valid title to the property as his title was derived from a forged Deed of Donation; (b) he was able to obtain TCT No. N-217728; (c) he succeeded in mortgaging the property to Calubad and Keh; (d) Calubad and Keh found nothing on TCT No. N-217728 that would have notified them of Damian's invalid title. In fact, Calubad and Keh even went beyond the title and conducted an ocular inspection, whereby they confirmed that Damian was in possession and occupation of the property;^[33] and (e) the mortgage contract was registered. Thus, the courts *a quo* did not err in

ruling that Calubad and Keh were mortgagees in good faith.

Danilo, however, insists that even if Calubad and Keh were mortgagees in good faith, they are not innocent purchasers for value because they were aware of the existence of an adverse claim on the property before the public auction. As such, they cannot have a valid title over the property. Danilo relies on the case of *HSLB*, wherein the Court declared that HSLB was not a purchaser in good faith because at the time HSLB acquired the disputed property on foreclosure sale, it had actual knowledge of the Notice of *Lis Pendens*.

Danilo 's reliance on *HSLB* is mistaken. The factual milieu of HSLB is exceptional, hence, its ruling cannot be applied in this case.

In *HSLB*,^[34] the original owners (Felonía and De Guzman) of the disputed property sought reformation of a Deed of Absolute Sale with Option to Repurchase entered into with Delgado, on the ground that the parties intended to execute a real estate mortgage, not a sale (reformation case). Finding merit to their claim, the trial court ordered the reformation of the sale into a mortgage. This was affirmed by the CA, which decision became final and executory. During the pendency of the reformation case, however, 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 another court. The petition was granted and consequently, the title was transferred to Delgado's name. Felonía and De Guzman then filed a Petition for Annulment of Judgment before the CA. Meanwhile, Delgado mortgaged the property to HSLB. This mortgage was annotated on Delgado's title. Later, Felonía and De Guzman also annotated a Notice of *Lis Pendens* on Delgado's title. Two years after, HSLB foreclosed the property, and later consolidated ownership in its favor, causing the issuance of a new title in its name. Eventually, the CA set aside the trial court's decision in the consolidation case, declared Felonía and De Guzman as the absolute owners of the property, and ordered the cancellation of Delgado's title. The CA decision became final and executory. As the adjudged owners, Felonía and De Guzman sought the nullity of the mortgage and foreclosure sale, annulment of HSLB's title, and reconveyance of possession and ownership of the subject property in their favor, which were granted by the RTC and affirmed by the CA.

On appeal, HSLB did not question the CA ruling on the nullity of the mortgage and foreclosure sale, as well as the invalidity of its title. In fact, HSLB already recognized Felonía and De Guzman's title when it prayed that its mortgage lien be carried over to Felonía and De Guzman's reinstated title. Consequently, the CA decision annulling the foreclosure sale and cancelling HSLB's title became final. With the finality of annulment of the mortgage, foreclosure sale, and HSLB's title, the Court ruled that the mortgage in favor HSLB was rendered ineffective. Using the Court's language, "[t]he priorly registered mortgage lien of HSLB is now worthless." Thus, there is no more mortgage lien to carry over and into the restored title in Felonía and De Guzman's name. The Court ruled in this wise:

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.

x x x x

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."

x x x x

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. x x x.

x x x x

We go back to *Bank of Commerce v. San Pablo, Jr.* 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 certificate of title, as evidence of lawful ownership of the land or of any encumbrance thereon."

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.^[35] (Emphases supplied; citations omitted.)

The determination of HSLB's good faith as the purchaser in the foreclosure sale was necessary, since it can no longer benefit from its rights as a mortgagee in good faith considering that the mortgage, foreclosure sale, and HSLB's title were later on nullified with finality. This is not the case here.

The validity of the mortgage and Calubad and Keh's title as purchasers in the