

# FIRST DIVISION

[ G.R. No. 219694, June 26, 2019 ]

**EEG DEVELOPMENT CORPORATION AND EDUARDO E. GONZALEZ, PETITIONERS, VS. HEIRS OF VICTOR C. DE CASTRO (DECEASED), FRANCIS C. DE CASTRO, DON EMIL C. DE CASTRO, EGINO C. DE CASTRO, AND ANDRE C. DE CASTRO, RESPONDENTS.**

## DECISION

**BERSAMIN, C.J.:**

This case concerns the purchase of a registered parcel of land which is being assailed as void for the lack of authority of the seller to sell, and the buyers putting forth the defense that they were innocent purchasers for value.

### The Case

Petitioners appeal to reverse and set aside the adverse decision promulgated on April 28, 2015,<sup>[1]</sup> whereby the Court of Appeals (CA) affirmed the judgment rendered by the Regional Trial Court (RTC), Branch 217, in Quezon City on February 11, 2011 annulling the sale between petitioners and Joseph L. De Castro, Sr. covering the registered parcel of land and its improvements on the ground of fraud.<sup>[2]</sup>

### Antecedents

The disputed sale pertains to the parcel of land with an area of 480 square meters located at No. 19 Spencer St., Cubao, Quezon City and covered by Transfer Certificate of Title (TCT) No. 67024 of the Register of Deeds of Quezon City registered under the name of Joseph De Castro, Sr. (De Castro, Sr.), married to Dionisia De Castro (Dionisia). De Castro, Sr. and Dionisia (spouses) had built their family home on the lot, and had been living therein with their 13 children, namely: Joseph, Jr., Olivia, Hubert, Dionisia, Daniel, Victor, Francis, Hiram, Don Emil, Egino, Andre, Alton, and Patricia. The original of the TCT, which was among the records destroyed in the fire that gutted the premises of the City Hall of Quezon City in 1987, was reconstituted, and TCT No. RT-54796 was then issued.<sup>[3]</sup>

A mortgage was constituted on the property in favor of the Development Bank of the Philippines (DBP) to secure the performance of the obligation of the spouses under the loan taken in April 1973. After they defaulted, DBP extrajudicially foreclosed the mortgage in January 1982. On October 25, 1990, Dionisia passed away. On December 14, 1990, or almost eight years from the lapse of the reglementary period within which to redeem the foreclosed subject property, the property was redeemed.<sup>[4]</sup>

In 1996, De Castro, Sr. obtained a new loan from the International Exchange Bank

(IBank), and secured the performance thereof by constituting a real estate mortgage on the subject property.<sup>[5]</sup> De Castro, Sr. defaulted, and IBank extrajudicially foreclosed the mortgage. The property was sold at public auction in which IBank emerged as the highest bidder.

In July 1998, De Castro, Sr., together with his sons Alton and Hubert, fearing the loss of the property for a measly price and to a stranger, offered to petitioner Eduardo E. Gonzalez (Gonzalez) to buy the subject property by paying the redemption price to IBank. They agreed on the offer. On July 29, 1998, Gonzalez settled De Castro, Sr.'s debt with IBank in the amount of P7,000,000.00. As proof of payment, IBank issued Official Receipt No. 075111 dated July 20, 1998.<sup>[6]</sup> IBank delivered to Gonzalez TCT No. N-161693 free from any encumbrance except for the mortgage in favor of IBank. On July 21, 1998, IBank issued the cancellation of the mortgage.<sup>[7]</sup>

On his part, De Castro, Sr. issued the acknowledgment receipt dated July 24, 1998 as proof of his receipt from Gonzalez of the full payment of the purchase price for the sale of the property. On the same date, De Castro, Sr. executed and delivered an irrevocable special power of attorney appointing Gonzalez as his true and lawful attorney-in-fact to pay and settle his unpaid obligation with IBank; to cause the release and cancellation of the encumbrance annotated at the back of TCT No. N-161693 of the Registry of Deeds for Quezon City; and to demand and receive on his behalf the original copy of the Owner's Duplicate Copy of TCT No. N-161693, and all other documents pertaining thereto.

Meanwhile, Gonzalez transferred the subject property to co-petitioner EEG Development Corporation (EEG) by the deed of sale also dated July 24, 1998. However, due to EEG's incorporation being then still pending approval by the Securities and Exchange Commission (SEC), the deed of sale was not immediately registered in the Registry of Deeds. Upon approval by the SEC of EEG's incorporation, De Castro, Sr. executed in favor of EEG another deed of absolute sale on August 14, 1998.<sup>[8]</sup> Thereafter, TCT No. N-161693, registered under the name of De Castro, Sr., was cancelled and a new title, TCT No. N-194773, was issued in the name of EEG.

On August 7, 1998, De Castro, Sr. and Alton, together with a few personnel from the Office of the City Engineer of Quezon City and some policemen, proceeded to the property to demolish the house constructed thereon, by virtue of the demolition permit dated July 10, 1998. This alarmed respondents, who sought the help of then Quezon City Mayor Ismael G. Mathay to try to prevent the demolition.

On August 8, 1998, respondents learned that the property had been sold to petitioners. Asserting that De Castro, Sr., their father, had no authority to sell the property by himself, respondents annotated their adverse claim on the title on August 12, 1998.<sup>[9]</sup> Thus, upon the release of TCT No. N-194773, petitioners were surprised to find thereon the annotation of the affidavit of adverse claim dated August 12, 1998 stating that affiant Don Emil was a co-owner by virtue of inheriting an aliquot part corresponding to his mother's share.

On April 7, 1999, five of De Castro, Sr.'s children, namely: respondents Victor, Francis, Don Emil, Egino, and Andre, commenced an action for quieting of title,

nullity of documents, prohibition, and damages in the RTC in Quezon City, docketed as Civil Case No. Q99-37261 against petitioners.<sup>[10]</sup> Also impleaded were the Office of the City Engineer of Quezon City and the Secretary of Public Works and Highways in connection with the demolition of the house built on the property was concerned.

Respondents submitted that the subject property was conjugal because it had been acquired during the marriage of De Castro, Sr. and Dionisia; that the sale to petitioners was void because De Castro, Sr. had no authority to sell the property by himself and without their consent; that respondents had inherited Dionisia's share upon her demise, thereby making them co-owners of the property; that the extrajudicial settlement of the estate of Dionisia in favor of De Castro, Sr. did not confer any authority upon him to dispose of the property by himself because not all of his children had signed the settlement; and that petitioners were buyers in bad faith by virtue of their knowledge of respondents' adverse claim, and because the property was not in the exclusive possession of De Castro, Sr. at the time of sale.

In contrast, petitioners contended that they were buyers in good faith because the title was free from any liens and encumbrances at the time of purchase, and they had no knowledge of any adverse interest in the property; that the sale had been made prior to the annotation of respondents' adverse claim inasmuch as the cancellation of the mortgage, as proof of the sale, had been annotated prior to the same. They specifically represented that:

1. At the time of sale, De Castro, Sr.'s title, TCT No. N-161693, contained no annotation or encumbrances, save for the mortgage in favor of IBank.<sup>[11]</sup>
2. IBank issued Official Receipt No. 075111 dated July 20, 1998,<sup>[12]</sup> which proved Gonzalez's payment of the redemption price to IBank;
3. In view of Gonzalez's payment, IBank cancelled the mortgage as evidenced by the Cancellation of Mortgage dated July 22, 1998;<sup>[13]</sup>
4. De Castro, Sr. executed an Acknowledgment Receipt dated July 24, 1998, which proved that he had received full payment of the purchase price from Gonzalez; and
5. The Deed of Sale was likewise executed on July 29, 1998 in favor of EEG.

#### Judgment of the RTC

Through the judgment rendered on February 11, 2011,<sup>[14]</sup> the RTC ruled in favor of respondents, holding that De Castro, Sr. had no authority to sell the property without their consent; that as co-owners, they had a right in the property; that the sale between Gonzalez and De Castro, Sr. was void, and prejudiced respondents' interest in the property; and that petitioners were buyers in bad faith because at the time of the sale, they had been aware of the respondents' adverse claim.

The RTC disposed:

WHEREFORE, premises considered, judgment is hereby rendered ordering as follows:

1. Declaring null and void and of no force and effect:
  - a) The extra-judicial settlement dated May 29, 1996 executed by Joseph de Castro, Sr.;
  - b) The Transfer Certificate of Title No. 161693;
  - c) The Deed of Absolute Sale executed on August 14, 1998 by and between Joseph De Castro, Sr. and EEG Development Corporation; and
  - d) The Transfer Certificate of Title No. 194773;
2. Ordering the Register of Deeds, Quezon City, to cancel the above Transfer Certificate of Titles and forthwith issue a new Transfer Certificate of Title in the name of defendant Joseph de Castro, Sr. and all his thirteen (13) children as co-owners pro-indiviso of the subject property; and
3. Ordering the defendants Joseph de Castro, Sr., Alton de Castro, E.E.G. Development Corporation and Eduardo E. Gonzalez, jointly and severally, to pay to the plaintiffs the sum of Four Hundred Thousand (P400,000.00) Pesos for moral damages; and the sum of Fifty Thousand (P50,000.00) Pesos for attorney's fees and costs of suit.

SO ORDERED.<sup>[15]</sup>

### **Decision of the CA**

As earlier mentioned,<sup>[16]</sup> the CA affirmed the judgment of the RTC on appeal, and declared that petitioners were buyers in bad faith for having failed to inquire into the condition of the property despite its being then in the possession of respondents and because of the adverse claim annotated on the title. The CA observed that "[t]he subsequent sale of [a] property covered by a certificate of title cannot prevail over an adverse claim, duly sworn to and annotated on the certificate of title previous to the sale."

However, the CA considered the amount of moral damages exorbitant, and reduced it from P400,000.00 to P100,000.00.<sup>[17]</sup>

### **Issue**

Were petitioners buyers in good faith?

### **Ruling of the Court**

The appeal is meritorious.

A person, to be considered a buyer in good faith, should buy the property of another

without notice that another person has a right to, or interest in, such property, and should pay a full and fair price for the same at the time of such purchase, or before he has notice of the claim or interest of some other persons in the property.<sup>[18]</sup>

As to registered and titled land, the buyer has no obligation to inquire beyond the four corners of the title. To prove good faith, he must only show that he relied on the face of the title to the property; and such proof of good faith is sufficient. However, the rule applies only when the following conditions concur, namely: *one*, the seller is the registered owner of the land; *two*, the latter is in possession thereof; and, *three*, the buyer was not aware at the time of the sale of any claim or interest of some other person in the property, or of any defect or restriction in the title of the seller or in his capacity to convey title to the property.<sup>[19]</sup> Absent any of the foregoing conditions, the buyer has the duty to exercise a higher degree of diligence by scrutinizing the certificate of title and examining all factual circumstances in order to determine the seller's title and capacity to transfer any interest in the property.<sup>[20]</sup>

All the foregoing conditions obtained herein. To start with, the face of the title reveals that the seller, De Castro, Sr., was the registered owner.<sup>[21]</sup> Secondly, De Castro, Sr. was the person in actual possession of the property. Although the property was also under the possession of respondents, there was nothing extraordinary with this circumstance that could arouse any suspicion on the part of the buyer because De Castro, Sr. and his children were all expected to live therein. Petitioners were also aware that the property had always been in the possession of respondents and their parents. As a matter of fact, Don Emil testified that he and some of his siblings had lived therein even after their respective marriages.<sup>[22]</sup> Thirdly, contrary to the lower courts' findings that petitioners had actual knowledge of respondents' adverse claim, the records showed otherwise. The sale had been undoubtedly entered into prior to the annotation of respondents' adverse claim on August 12, 1998, as borne out by the cancellation of the mortgage in favor of IBank on July 27, 1998 by virtue of Gonzalez's paying the redemption price to IBank on July 20, 1998.

For sure, Don Emil's testimony indicated that respondents annotated their adverse claim only after learning of the sale between Gonzalez and De Castro. The following excerpts from the testimony attested thusly:<sup>[23]</sup>

Q: When for the first time did you know that your father mortgaged the property to [IBank]?

A: August 1998.

x x x x

Q: How did you come to know that your father [mortgaged] the property to [IBank]?

A: **Because a certain [Gonzalez] came to me on August 8 and told me he bought the property and he said he owns the property which we objected to. We said no we could not recognize the sale. Immediately on August 10[,], my brother Francis went to the Registry of Deeds and saw it was mortgaged.**