

EN BANC

[G.R. No. 224678, July 03, 2018]

**SPOUSES JOSE MANUEL AND MARIA ESPERANZA RIDRUEJO
STILIANOPOULOS, PETITIONERS, V. THE REGISTER OF DEEDS
FOR LEGAZPI CITY AND THE NATIONAL TREASURER,
RESPONDENTS.**

DECISION

PERLAS-BERNABE, J.:

Assailed in this petition for review on *certiorari*^[1] are the Decision^[2] dated March 16, 2016 and the Resolution^[3] dated May 19, 2016 of the Court of Appeals (CA) in CA-G.R. CV No. 104207, which partially reversed and set aside the Decision^[4] dated August 19, 2013 and the Order^[5] dated April 30, 2014 of the Regional Trial Court of Legazpi City, Albay, Branch 2 (RTC) in Civil Case No. 10805, and accordingly, held that the claim of petitioners Spouses Jose Manuel (Jose Manuel) and Maria Esperanza Ridruejo Stilianopoulos (collectively; petitioners) against the Assurance Fund is already barred by prescription.

The Facts

This case stemmed from a Complaint^[6] for Declaration of Nullity of Transfer Certificate of Title (TCT) No. 42486, Annulment of TCT No. 52392 and TCT No. 59654, and Recovery of Possession of Lot No. 1320 with Damages (subject complaint) filed by petitioners against respondents The Register of Deeds for Legazpi City (RD-Legazpi) and The National Treasurer (National Treasurer), as well as Jose Fernando Anduiza (Anduiza), Spouses Rowena Hua-Amurao (Rowena) and Edwin Amurao (collectively; Spouses Amurao), and Joseph Funtanares Co, *et al.* (the Co Group) before the RTC.

Petitioners alleged that they own a 6,425-square meter property known as Lot No. 1320, as evidenced by TCT No. 13450^[7] in the name of Jose Manuel, who is a resident of Spain and without any administrator of said property in the Philippines.^[8] On October 9, 1995, Anduiza caused the cancellation of TCT No. 13450 and issuance of TCT No. 42486^[9] in his name.^[10]

Thereafter, Anduiza mortgaged Lot No. 1320 to Rowena.^[11] As a result of Anduiza's default, Rowena foreclosed the mortgage, and consequently, caused the cancellation of TCT No. 42486 and issuance of TCT No. 52392^[12] in her name on July 19, 2001.^[13] On April 15, 2008, Rowena then sold Lot No. 1320 to the Co Group, resulting in the cancellation of TCT No. 52392 and issuance of TCT No. 59654^[14] in the latter's name.^[15]

According to petitioners, their discovery of the aforesaid transactions only on January 28, 2008 prompted them to file a complaint for recovery of title on May 2, 2008.^[16] However, such complaint was dismissed for petitioners' failure to allege the assessed value of Lot No. 1320. Thus, they filed the subject complaint on March 18, 2009, praying that: (a) TCT Nos. 42486, 52392, and 59654 in the respective names of Anduiza, Rowena, and the Co Group be annulled; (b) all defendants be held solidarily liable to pay petitioners damages and attorney's fees; and (c) the RD-Legazpi and the National Treasurer, through the Assurance Fund, be ordered to pay petitioners' claims should the defendants be unable to pay the same in whole or in part.^[17] In support of their complaint, petitioners claimed that they were deprived of the possession and ownership of Lot No. 1320 without negligence on their part and through fraud, and in consequence of errors, omissions, mistakes, or misfeasance of officials and employees of RD-Legazpi.^[18]

In their defense, Spouses Amurao and the Co Group both maintained that they purchased Lot No. 1320 in good faith and for value, and that petitioners' cause of action has already prescribed, considering that they only had ten (10) years from the issuance of TCT No. 42486 in the name of Anduiza on October 9, 1995 within which to file a complaint for recovery of possession.^[19] For their part,^[20] the RD-Legazpi and the National Treasurer also invoked the defense of prescription, arguing that the right to bring an action against the Assurance Fund must be brought within six (6) years from the time the cause of action occurred, or in this case, on October 9, 1995 when Anduiza caused the cancellation of petitioners' TCT over Lot No. 1320.^[21] Notably, Anduiza did not file any responsive pleading despite due notice.^[22]

The RTC Ruling

In a Decision^[23] dated August 19, 2013 the RTC: (a) dismissed the case against Spouses Amurao and the Co Group as they were shown to be purchasers in good faith and for value; and (b) found Anduiza guilty of fraud in causing the cancellation of petitioners' TCT over Lot No. 1320, and thus, ordered him to pay petitioners the amount of P5,782,500.00 representing the market value of Lot No. 1320, as well as P10,000.00 as exemplary damages; and (c) held the National Treasurer, as custodian of the Assurance Fund, subsidiarily liable to Anduiza's monetary liability should the latter be unable to fully pay the same.^[24]

Prefatorily, the RTC characterized the subject complaint filed on March 18, 2009 as one for reconveyance based on an implied trust, which is subject to extinctive prescription of ten (10) years ordinarily counted from the time of the repudiation of the trust, *i.e.*, when Anduiza registered TCT No. 42486 in his name on October 9, 1995. This notwithstanding, the RTC found that since: (a) petitioners are residing in Spain; (b) they are in possession of the owner's duplicate copy of TCT No. 13450 registered in their names; and (c) Anduiza's act of fraudulently cancelling their title was unknown to – if not effectively concealed from – them, the ten (10)-year prescriptive period should be reckoned from their actual discovery of the fraud in 2008.^[25] As such, petitioners' complaint for reconveyance – as well as their claim against the Assurance Fund which has a six (6)-year prescriptive period – has not prescribed.^[26]

Anent the merits of the case, the RTC found that Anduiza had indeed acquired title over Lot No. 1320 in bad faith and through fraud – a fact which is further

highlighted by his failure to refute petitioner's allegations against him on account of his omission to file a responsive pleading despite due notice.^[27] This notwithstanding, the RTC held that petitioners could no longer recover Lot No. 1320 from Spouses Amurao and/or the Co Group as the latter are innocent purchasers for value and in good faith, absent any evidence to the contrary. As such, it is only proper that Anduiza be made to pay compensatory damages corresponding to the value of the loss of property, as well as exemplary damages as stated above.^[28]

Finally, the RTC found that Anduiza alone could not have perpetrated the fraud without the active participation of the RD-Legazpi. It then proceeded to point out that the evidence on record clearly established the irregularities in the cancellation of petitioners' title and the issuance of Anduiza's title, all of which cannot be done successfully without the complicity of the RD-Legazpi. Hence, the Assurance Fund may be held answerable for the monetary awards in favor of petitioners, should Anduiza be unable to pay the same in whole or in part.^[29]

Aggrieved, petitioners moved for reconsideration,^[30] while the RD Legazpi and the National Treasurer moved for a partial reconsideration;^[31] both of which were denied in an Order^[32] dated April 30, 2014. Thus, they filed their respective notices of appeal.^[33] However, in an Order^[34] dated June 11, 2014, petitioners' notice of appeal was denied due course due to their failure to pay the appellate docket and other lawful fees.^[35] Consequently, the Co Group moved for a partial entry of judgment,^[36] which the RTC granted in an Order^[37] dated July 22, 2014. As such, only the appeal of the RD-Legazpi and the National Treasurer questioning the subsidiary liability of the Assurance Fund was elevated to the CA.^[38]

The CA Ruling

In a Decision^[39] dated March 16, 2016, the CA reversed and set aside the RTC's ruling insofar as the National Treasurer's subsidiary liability was concerned.^[40] It held that petitioners only had six (6) years from the time Anduiza caused the cancellation of TCT No. 13450 on October 9, 1995, or until October 9, 2001, within which to claim compensation from the Assurance Fund. Since petitioners only filed their claim on March 18, 2009, their claim against the Assurance Fund is already barred by prescription.^[41]

Dissatisfied, petitioners moved for reconsideration,^[42] which was, however, denied in a Resolution^[43] dated May 19, 2016; hence, this petition.^[44]

The Issue Before the Court

The essential issue for resolution is whether or not the CA correctly held that petitioners' claim against the Assurance Fund has already been barred by prescription.

The Court's Ruling

The petition is granted.

I. Nature and Purpose of the Assurance Fund

It is a fundamental principle that "a Torrens certificate of Title is indefeasible and binding upon the whole world unless it is nullified by a court of competent jurisdiction x x x in a direct proceeding for cancellation of title."^[45] "The purpose of adopting a Torrens System in our jurisdiction is to guarantee the integrity of land titles and to protect their indefeasibility once the claim of ownership is established and recognized. This is to avoid any possible conflicts of title that may arise by giving the public the right to rely upon the face of the Torrens title and dispense with the need of inquiring further as to the ownership of the property."^[46]

As a corollary, "every person dealing with registered land may safely rely on the correctness of the certificate of title issued therefor and the law will in no way oblige him to go behind the certificate to determine the condition of the property. When a certificate of title is clean and free from any encumbrance, potential purchasers have every right to rely on such certificate. **Individuals who rely on a clean certificate of title in making the decision to purchase the real property are often referred to as 'innocent purchasers for value' and 'in good faith.'**"^[47] **"Where innocent third persons, relying on the correctness of the certificate of title thus issued, acquire rights over the property[,] the court cannot disregard such rights and order the total cancellation of the certificate.** The effect of such an outright cancellation would be to impair public confidence in the certificate of title, for everyone dealing with property registered under the Torrens system would have to inquire in every instance whether the title has been regularly or irregularly issued."^[48]

The rationale for the rule on innocent purchasers for value "is the public's interest in sustaining 'the indefeasibility of a certificate of title, as evidence of the lawful ownership of the land or of any encumbrance' on it."^[49] Notably, the term "innocent purchaser for value" may also refer to an innocent mortgagee who had no knowledge of any defects in the title of the mortgagor of the property, such as in this case.

However, while "public policy and public order demand x x x that titles over lands under the Torrens system should be given stability for on it greatly depends the stability of the country's economy[,] x x x **[p]ublic policy also dictates that those unjustly deprived of their rights over real property by reason of the operation of our registration laws be afforded remedies.**"^[50] Thus, as early as the 1925 case of *Estrellado v. Martinez*,^[51] it has been discerned that remedies, such as an action against the Assurance Fund, are available remedies to the unwitting owner:

The authors of the Torrens system x x x wisely included provisions intended to safeguard the rights of prejudiced parties rightfully entitled to an interest in land but shut off from obtaining titles thereto [because of the indefeasibility of a Torrens title]. **[Therefore,] [a]s supplementary to the registration of titles, pecuniary compensation by way of damages was provided for in certain cases for persons who had lost their property. For this purpose, an assurance fund was created.** x x x^[52] (Emphasis and underscoring supplied)

The Assurance Fund is a long-standing feature of our property registration system which is intended **"to relieve innocent persons from the harshness of the doctrine that a certificate is conclusive evidence of an indefeasible title to**

land x x x."^[53] Originally, claims against the Assurance Fund were governed by Section 101^[54] of Act No. 496, otherwise known as the "Land Registration Act." The language of this provision was substantially carried over to our present "Property Registration Decree," *i.e.*, Presidential Decree No. (PD) 1529,^[55] Section 95 of which reads:

Section 95. *Action for compensation from funds.* – A person who, without negligence on his part, sustains **loss or damage, or is deprived of land or any estate or interest therein in consequence of the bringing of the land under the operation of the Torrens system** or arising after original registration of land, through fraud or in consequence of any error, omission, mistake or misdescription in any certificate of title or in any entry or memorandum in the registration book, and who by the provisions of this Decree is barred or otherwise precluded under the provision of any law from bringing an action for the recovery of such land or the estate or interest therein, may bring an action in any court of competent jurisdiction for the recovery of damages to be paid out of the Assurance Fund.

In *Register of Deeds of Negros Occidental v. Anglo, Sr.*^[56] (*Anglo, Sr.*), the Court held that "[b]ased solely on Section 95 of Presidential Decree No. 1529, the following conditions must be met: ***First***, the individual must sustain loss or damage, or the individual is deprived of land or any estate or interest. ***Second***, the individual must not be negligent. ***Third***, the loss, damage, or deprivation is the consequence of either (a) **fraudulent registration under the Torrens system after the land's original registration**, or (b) any error, omission, mistake, or misdescription in any certificate of title or in any entry or memorandum in the registration book. [And] ***[f]ourth***, the individual must be barred or otherwise precluded under the provision of any law from bringing an action for the recovery of such land or the estate or interest therein."^[57]

Anent the first ground (*i.e.*, item [a] of the third condition above), it should be clarified that loss, damage, or deprivation of land or any estate or interest therein through fraudulent registration alone is not a valid ground to recover damages against the Assurance Fund. Section 101 of PD 1529 explicitly provides that "[t]he Assurance Fund shall **not** be liable for any loss, damage or deprivation caused or occasioned by a **breach of trust, whether express, implied or constructive** or by any mistake in the resurvey or subdivision of registered land resulting in the expansion of area in the certificate of title." It is hornbook doctrine that "[w]hen a party uses fraud or concealment to obtain a certificate of title of property, a constructive trust is created in favor of the defrauded party."^[58] However, as stated in Section 101 of PD 1529, the inability to recover from the defrauding party does not make the Assurance Fund liable therefor.

Instead, the loss, damage or deprivation becomes compensable under the Assurance Fund when the property has been further registered in the name of an innocent purchaser for value. This is because in this instance, the loss, damage or deprivation are not actually caused by any breach of trust but rather, by the operation of the Torrens system of registration which renders indefeasible the title of the innocent purchaser for value. **To note, it has been held that a mortgagee in good faith (such as Rowena) stands as an innocent mortgagee for value with the rights of an innocent purchaser for value.**^[59]