

THIRD DIVISION

[G.R. No. 213241, August 01, 2016]

**PHILIPPINE NATIONAL BANK, PETITIONER, VS. JUAN F. VILA,
RESPONDENT.**

DECISION

PEREZ, J.:

For resolution of the Court is the instant Petition for Review on *Certiorari*^[1] filed by petitioner Philippine National Bank (PNB), seeking to reverse and set aside the Decision^[2] dated 18 December 2013 and Resolution^[3] dated 13 June 2014 of the Court of Appeals (CA) in CA-G.R. CV No. 97612. The assailed decision and resolution affirmed the 22 June 2011 Decision^[4] of the Regional Trial- Court (RTC) of Villasis, Pangasinan, Branch 50 which found that petitioner PNB is not a mortgagee in good faith.

The Facts

Petitioner PNB is a universal banking corporation duly authorized by *Bangko Sentral ng Pilipinas (BSP)* to engage in banking business.

Sometime in 1986, Spouses Reynaldo Cormsta and Erlinda Gamboa Cornista (Spouses Cornista) obtained a loan from Traders Royal Bank (Traders Bank).^[5] To secure the said obligation, the Spouses Cornista mortgaged to the bank a parcel of land with an area of 451 square meters designated as Lot 555-A-2 and registered under Transfer Certificate of Title (TCT) No. 131498 in their names by the Register of Deeds of Pangasinan.

For failure of the Spouses Cornista to make good of their loan obligation after it has become due, Traders Bank foreclosed the mortgage constituted on the security of the loan. After the notice and publication requirements were complied with, the subject property was sold at the public auction on 23 December 1987. During the public sale, respondent Juan F. Vila (Vila) was declared as the highest bidder after he offered to buy the subject property for P50,000.00. The Certificate of Sale dated 13 January 1988 was duly recorded in TCT No. 131498 under **Entry No. 623599**.^[6]

To exercise his right of ownership, Vila immediately took possession of the subject property and paid the real estate taxes corresponding thereon.

On 11 February 1989, a Certificate of Final Sale was issued to Vila after the one-year redemption period had passed without the Spouses Cornista exercising their statutory right to redeem the subject property. He was, however, prevented from consolidating the ownership of the property under his name because the owner's copy of the certificate of title was not turned over to him by the Sheriff.

Despite the lapse of the redemption period and the fact of issuance of a Certificate of Final Sale to Vila, the Spouses Cornista were nonetheless allowed to buy back the subject property by tendering the amount of P50,000.00. A Certificate of Redemption^[7] dated 14 March 1989 was issued for this purpose and was duly annotated in the title under **Entry No. 708261**.

Claiming that the Spouses Cornista already lost their right to redeem the subject property, Vila filed an action for nullification of redemption, transfer of title and damages against the Spouses Cornista and Alfredo Vega in his capacity as the Register of Deeds of Pangasinan. The case was docketed as *Civil Case No. V-0242* on 10 January 1992 and was raffled to Branch 50. A Notice of *Lis Pendens* was issued for this purpose and was duly recorded in the certificate of title of the property on 19 October 1992 under **Entry No. 759302**.^[8]

On 3 February 1995, the RTC rendered a Decision^[9] in *Civil Case No. V-0242* in favor of Vila thereby ordering the Register of Deeds to cancel the registration of the certificate of redemption and the annotation thereof on TCT No. 131498. The said decision was affirmed by the CA on 19 October 1997 in *CA-G.R. CV No. 49463*.^[10] The decision of the appellate court became final and executory on 19 November 1997.

In order to enforce the favorable decision, Vila filed before the RTC a Motion for the Issuance of Writ of Execution which was granted by the court. Accordingly, a Writ of Execution^[11] was issued by the RTC on 14 December 1997.

By unfortunate turn of events, the Sheriff could not successfully enforce the decision because the certificate of title covering the subject property was no longer registered under the names of the Spouses Cornista. Hence, the judgment was returned unsatisfied as shown in Sheriffs Return^[12] dated 13 July 1999.

Upon investigation it was found out that during the *interregnum* the Spouses Cornista were able to secure a loan from the PNB in the amount of P532,000.00 using the same property subject of litigation as security. The Real Estate Mortgage (REM) was recorded on 28 September 1992 under **Entry No. 758171**^[13] or month before the Notice of *Lis Pendens* was annotated.

Eventually, the Spouses Cornista defaulted in the payment of their loan obligation with the PNB prompting the latter to foreclose the property offered as security. The bank emerged as the highest bidder during the public sale as shown at the Certificate of Sale issued by the Sheriff. As with the prior mortgage, the Spouses Cornista once again failed to exercise their right of redemption within the required period allowing PNB to consolidate its ownership over the subject property. Accordingly, TCT No. 131498^[14] in the name of the Spouses Cornista was cancelled and a new one under TCT No. 216771^[15] under the name of the PNB was issued.

The foregoing turn of events left Vila with no other choice but to commence another round of litigation against the Spouses Cornista and PNB before the RTC of Viliasis, Pangasinan, Branch 50. In his Complaint docketed as *Civil Case No. V-0567*, Vila sought for the nullification of TCT No. 216771 issued under the name of PNB and for

the payment of damages.

To refute the allegations of Vila, PNB pounded that it was a mortgagee in good faith pointing the fact that at the time the subject property was mortgaged to it, the same was still free from any liens and encumbrances and the Notice of *Lis Pendens* was registered only a month after the REM was annotated on the title. PNB meant to say that at the time of the transaction, the Spouses Cornista were still the absolute owners of the property possessing all the rights to mortgage the same to third persons. PNB also harped on the fact that a close examination of title was conducted and nowhere was it shown that there was any cloud in the title of the Spouses Cornista, the latter having redeemed the property after they have lost it in a foreclosure sale.^[16]

After the Pre-Trial Conference, trial on the merits ensued. The court *a quo* then proceeded to receive documentary and testimonial evidence from the opposing parties. Thereafter, the parties submitted their respective memorandum and the case was submitted for decision.

On 22 June 2011, the RTC rendered a Decision^[17] in favor of Vila and ruled that PNB is not a mortgagee in good faith. As a financial institution, the trial court held that PNB is expected to observe a higher degree of diligence. In hastily granting the loan, the trial court declared that PNB failed in this regard. Had the bank exercised due diligence, it could have easily discovered that the Spouses Cornista were not the possessors of the subject property which could lead it to the fact that at the time the subject property was mortgaged to it, a litigation involving the same was already commenced before the court. It was further ratiocinated by the RTC that "[a] mortgagee cannot close his eyes to facts which should put a reasonable man upon his guard" in ascertaining the status of a mortgaged property. The dispositive portion of the decision reads:

"WHEREFORE, judgment is hereby rendered:

1. Declaring the Real Estate Mortgage dated September 28, 1992, executed by the Spouses Reynaldo Cornista and Erlinda Gamboa in favor of the Philippine National Bank, Tayug, Pangasinan Branch, over the parcel of land covered by TCT No. 131498 null and void;
2. Declaring the Deed of Sale dated September 27, 1996, in favor of the PNB null and void;
3. Ordering the nullification and cancellation of Transfer Certificate of Title No. 216771 in the name of PNB;
4. Ordering the Register of Deeds of Pangasinan to issue a new certificate of title covering the property subject matter of this case in the name-of Juan F. Vila; and
5. Ordering [the] defendant PNB to pay the plaintiff P50,000.00 moral damages, P50,000.00 exemplary damages and P100,000.00 attorney's fees and litigation expenses.

Costs against defendant Philippine National Bank.

SO ORDERED."^[18]

In a Resolution^[19] dated 13 June 2014, the RTC refused to reconsider its earlier decision and thereby denied the Motion for Reconsideration interposed by PNB.

On appeal, the CA Decision^[20] dated 18 December 2013 affirmed the RTC ruling. In failing to exercise greater care and diligence in approving the loan of the Spouses Cornista without first ascertaining if there were any defects in their title, the appellate court held that PNB could not be afforded the status of a mortgagee in good faith. It went further by declaring that [a] bank whose business is impressed with public interest is expected to exercise more care and prudence in its dealings than a private individual, even in cases involving registered lands. A bank cannot assume that, simply because the title offered as security is on its face free of any encumbrances of lien, it is relieved of the responsibility of taking further steps to verify the title and inspect the properties to be mortgaged.^[21] The CA thus disposed:

"WHEREFORE, the instant appeal is **DENIED**. The assailed Decision dated June 22, 2011 and the Resolution dated August 11, 2011 of the Regional Trial Court of Villasis, Pangasinan, Branch 50, in Civil Case No, V-0567 are hereby **AFFIRMED**."^[22]

On 13 June 2014, the CA issued a Resolution^[23] denying the Motion for Reconsideration of the PNB prompting the bank to seek recourse before the Court *via* instant Petition for Review on *Certiorari*. For Our resolution are the following issues:

The Issues

I.

WHETHER OR NOT PNB IS A MORTGAGEE IN GOOD FAITH;

II

WHETHER OR NOT PNB IS LIABLE FOR DAMAGES.^[24]

The Court's Ruling

We resolve to deny the petition.

In general, the issue of whether a mortgagee is in good faith cannot be entertained in a Rule 45 petition. This is because the ascertainment of good faith or the lack thereof, and the determination of negligence are factual matters which lay outside the scope of a petition for review on *certiorari*. Good faith, or the lack of it, is a question of intention. In ascertaining intention, courts are necessarily controlled by the evidence as to the conduct and outward facts by which alone the inward motive may, with safety, be determined.^[25] A recognized, exception to the rule is when there are conflicting findings of fact by the CA and the RTC.^[26] In the case at bar,