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SECOND DIVISION

[G.R. No. 183774, November 14, 2012]

PHILIPPINE BANKING CORPORATION, PETITIONER, VS. ARTURO DY, BERNARDO DY, JOSE DELGADO AND CIPRIANA DELGADO, RESPONDENTS.

D E C I S I O N

PERLAS-BERNABE, J.:

This Petition for Review on *Certiorari* assails the January 30, 2008 Decision[1] of the Court of Appeals (CA) in CA-G.R. CV No. 51672, which set aside the October 5, 1994 Decision[2] of the Regional Trial Court of Cebu City, Branch 22 (RTC) and directed the Register of Deeds of Cebu City to cancel Transfer Certificate of Title (TCT) Nos. 51768[3] and 51901[4] in the names of respondents Arturo Dy and Bernardo Dy (Dys) and to issue the corresponding TCTs in the name of respondent Cipriana Delgado (Cipriana).

The Factual Antecedents

Cipriana was the registered owner of a 58,129-square meter (sq.m.) lot, denominated as Lot No. 6966, situated in Barrio Tongkil, Minglanilla, Cebu, covered by TCT No. 18568. She and her husband, respondent Jose Delgado (Jose), entered into an agreement with a certain Cecilia Tan (buyer) for the sale of the said property for a consideration of P10.00/sq.m. It was agreed that the buyer shall make partial payments from time to time and pay the balance when Cipriana and Jose (Sps. Delgado) are ready to execute the deed of sale and transfer the title to her.

At the time of sale, the buyer was already occupying a portion of the property where she operates a noodle (bihon) factory while the rest was occupied by tenants which Sps. Delgado undertook to clear prior to full payment. After paying the total sum of P147,000.00 and being then ready to pay the balance, the buyer demanded the execution of the deed, which was refused. Eventually, the buyer learned of the sale of the property to the Dys and its subsequent mortgage to petitioner Philippine Banking Corporation (Philbank), prompting the filing of the Complaint[5] for annulment of certificate of title, specific performance and/or reconveyance with damages against Sps. Delgado, the Dys and Philbank.

In their Answer, Sps. Delgado, while admitting receipt of the partial payments made by the buyer, claimed that there was no perfected sale because the latter was not willing to pay their asking price of P17.00/sq.m. They also interposed a cross-claim against the Dys averring that the deeds of absolute sale in their favor dated June 28, 1982[6] and June 30, 1982[7] covering Lot No. 6966 and the adjoining Lot No. 4100-A (on which Sps. Delgado's house stands), were fictitious and merely intended to enable them (the Dys) to use the said properties as collateral for their loan

application with Philbank and thereafter, pay the true consideration of P17.00/sq.m. for Lot No. 6966. However, after receiving the loan proceeds, the Dys reneged on their agreement, prompting Sps. Delgado to cause the annotation of an adverse claim on the Dys' titles and to inform Philbank of the simulation of the sale. Sps. Delgado, thus, prayed for the dismissal of the complaint, with a counterclaim for damages and a cross-claim against the Dys for the payment of the balance of the purchase price plus damages.

For their part, the Dys denied knowledge of the alleged transaction between cross-claimants Sps. Delgado and buyer. They claimed to have validly acquired the subject property from Sps. Delgado and paid the full consideration therefor as the latter even withdrew their adverse claim and never demanded for the payment of any unpaid balance.

On the other hand, Philbank filed its Answer[8] asserting that it is an innocent mortgagee for value without notice of the defect in the title of the Dys. It filed a cross-claim against Sps. Delgado and the Dys for all the damages that may be adjudged against it in the event they are declared seller and purchaser in bad faith, respectively.

In answer to the cross-claim, Sps. Delgado insisted that Philbank was not a mortgagee in good faith for having granted the loan and accepted the mortgage despite knowledge of the simulation of the sale to the Dys and for failure to verify the nature of the buyer’s physical possession of a portion of Lot No. 6966. They thereby prayed for the cancellation of the mortgage in Philbank's favor.

Subsequently, Sps. Delgado amended their cross-claim against the Dys to include a prayer for the nullification of the deeds of absolute sale in the latter's favor and the corresponding certificates of title, and for the consequent reinstatement of Cipriana’s title.[9]

The complaints against the Dys and Philbank were subsequently withdrawn. On the other hand, both the buyer and Sps. Delgado never presented any evidence in support of their respective claims. Hence, the RTC limited itself to the resolution of the claims of Sps. Delgado, Philbank and the Dys against one another.

The RTC Ruling

In the Decision[10] dated October 5, 1994, the RTC dismissed the cross-claims of Sps. Delgado against the Dys and Philbank. It noted that other than Sps. Delgado's bare allegation of the Dys' supposed non-payment of the full consideration for Lot Nos. 6966 and 4100-A, they failed to adduce competent evidence to support their claim. On the other hand, the Dys presented a cash voucher[11] dated April 6, 1983 duly signed by Sps. Delgado acknowledging receipt of the total consideration for the two lots.

The RTC also observed that Sps. Delgado notified Philbank of the purported simulation of the sale to the Dys only after the execution of the loan and mortgage documents and the release of the loan proceeds to the latter, negating their claim of bad faith. Moreover, they subsequently notified the bank of the Dys' full payment for

the two lots mortgaged to it.

The CA Ruling

However, on appeal, the CA set aside[12] the RTC's decision and ordered the cancellation of the Dys' certificates of title and the reinstatement of Cipriana's title. It ruled that there were no perfected contracts of sale between Sps. Delgado and the Dys in view of the latter's admission that the deeds of sale were purposely executed to facilitate the latter's loan application with Philbank and that the prices indicated therein were not the true consideration. Being merely simulated, the contracts of sale were, thus, null and void, rendering the subsequent mortgage of the lots likewise void.

The CA also declared Philbank not to be a mortgagee in good faith for its failure to ascertain how the Dys acquired the properties and to exercise greater care when it conducted an ocular inspection thereof. It thereby canceled the mortgage over the two lots.

The Petition

In the present petition, Philbank insists that it is a mortgagee in good faith. It further contends that Sps. Delgado are estopped from denying the validity of the mortgage constituted over the two lots since they participated in inducing Philbank to grant a loan to the Dys.

On the other hand, Sps. Delgado maintain that Philbank was not an innocent mortgagee for value for failure to exercise due diligence in transacting with the Dys and may not invoke the equitable doctrine of estoppel to conceal its own lack of diligence.

For his part, Arturo Dy filed a Petition-in-Intervention[13] arguing that while the deeds of absolute sale over the two properties were admittedly simulated, the simulation was only a relative one involving a false statement of the price. Hence, the parties are still bound by their true agreement. The same was opposed/objected to by both Philbank[14] and Sps. Delgado[15] as improper, considering that the CA judgment had long become final and executory as to the Dys who neither moved for reconsideration nor appealed the CA Decision.

The Ruling of the Court

The petition is meritorious.

At the outset, the Court takes note of the fact that the CA Decision nullifying the questioned contracts of sale between Sps. Delgado and the Dys had become final and executory. Accordingly, the Petition-in-Intervention filed by Arturo Dy, which seeks to maintain the subject contracts' validity, can no longer be entertained. The cancellation of the Dys' certificates of title over the disputed properties and the issuance of new TCTs in favor of Cipriana must therefore be upheld.

However, Philbank's mortgage rights over the subject properties shall be maintained. While it is settled that a simulated deed of sale is null and void and