

SECOND DIVISION

[G.R. NO. 150730, January 31, 2005]

MILA SALES LLANTO, YOLANDA SALES CABILLO, OSCAR SALES, ACQUILINA^[1] SALES, FRANCISCO SALES, ALBERTO SALES, GLORIA SALES ALIPIO, EDUARDO SALES, EMERCIA-NA^[2] SALES ALGIRE, ELENITA SALES SERRANO, AND CONRADO SALES, PETITIONERS, VS. ERNESTO ALZONA, DOMINADOR ALZONA, ESTELA SALES PELONGCO,^[3] AND THE REGISTER OF DEEDS OF CALAMBA, LAGUNA, RESPONDENTS.

D E C I S I O N

AUSTRIA-MARTINEZ, J.:

Before us is a petition for review on *certiorari* under Rule 45 of the Rules of Court assailing the Decision^[4] of the Court of Appeals (CA) promulgated on March 19, 2001 in CA-G.R. CV No. 52951,^[5] which affirmed with modification the decision dated May 30, 1996 of the Regional Trial Court (RTC) of San Pedro, Laguna (Branch 31); and the Resolution dated October 26, 2001, denying petitioners' motion for reconsideration.

The facts of the case are as follows:

Bernardo Sales and Maria Sales were husband and wife. They have twelve children, eleven of whom are the present petitioners while the remaining child, Estela Sales Pelongco, is one of herein respondents. Maria was the registered owner of a certain parcel of land with an area of 202 square meters and covered by Original Certificate of Title (OCT) No. P-3225 which she acquired under a free patent.^[6] The property is located at Banlic, Cabuyao, Laguna.^[7] Until they died, Maria and Bernardo, together with some of their children, lived on said land and in the house which they constructed thereon. Maria died on August 27, 1986^[8] while Bernardo died on January 1, 1997.

On January 29, 1990, a real estate mortgage contract was purportedly executed by Maria, who was already deceased at that time, and Bernardo in favor of herein respondent Dominador Alzona.^[9] Respondent Estela Sales Pelongco signed as an instrumental witness to the mortgage contract.^[10] Respondent Ernesto Alzona admitted that while he was a co-mortgagee of his brother, Dominador, his name does not appear in the mortgage contract. The mortgage was subsequently foreclosed for alleged failure of Bernardo and Maria to settle their obligation secured by the said mortgage. The property was thereafter sold in a mortgage sale conducted on December 20, 1990 wherein Ernesto Alzona was the highest bidder. Consequently, a certificate of sale was awarded to Ernesto on December 20, 1990,^[11] and on January 22, 1992, he executed a Consolidation of Ownership over the

property.^[12] Accordingly, Transfer Certificate of Title No. T-261853 was issued in his name while OCT No. P-3225 in the name of Maria Sales was cancelled.^[13]

On December 17, 1992, herein petitioners caused the inscription of an adverse claim on the title to the property.^[14]

On October 15, 1993, herein petitioners filed before the RTC of San Pedro, Laguna a complaint for Annulment of Mortgage and of Auction Sale, with Reconveyance of Title and Damages.^[15] Respondents Ernesto and Dominador Alzona and the Register of Deeds of Calamba, Laguna filed their answers, respectively. However, respondent Estela Sales Pelongco failed to file her answer; as a consequence of which, she was declared in default.

After trial, the RTC rendered judgment, the dispositive portion of which reads as follows:

WHEREFORE, judgment is hereby rendered in favor of defendants Dominador Alzona and Ernesto Alzona and against Estela Sales dismissing plaintiffs' complaint with costs against plaintiffs, and ordering plaintiffs to pay defendants Dominador Alzona and Ernesto Alzona the sum of P50,000 plus P1,000 per court appearance for and as attorney's fees.

For paucity of evidence, no judgment can be rendered by this Court on the other reliefs prayed for by defendants Dominador Alzona and Ernesto Alzona in their counterclaim against the plaintiffs and in their crossclaim against defendant Estela Sales.

Relative to plaintiffs' complaint against defendant Estela Sales, judgment is hereby rendered in favor of the plaintiffs and against defendant Estela Sales by ordering the latter to pay the plaintiffs the amount of P30,000 for and as attorney's fees plus P1,000 per court appearance and P200,000 for moral damages.

For paucity of evidence, no judgment can be rendered on the other reliefs prayed for by plaintiffs in their complaint against defendant Estela Sales.

For lack of evidence, the complaint of plaintiffs against defendant Register of Deeds of Laguna, Calamba Branch, is as it is, hereby DISMISSED.

SO ORDERED.^[16]

Aggrieved by the trial court's decision, petitioners filed an appeal with the CA.

On March 19, 2001, the CA rendered a decision affirming the judgment of the RTC but deleting the attorney's fees awarded to petitioners.^[17]

Petitioners' motion for reconsideration was denied in a resolution issued by the Court of Appeals on October 26, 2001.^[18]

Hence, herein petitioners filed the present petition on the following grounds:

GROUND FOR THE PETITION

- A. THE RULE THAT A PURCHASER OR MORTGAGEE OF LAND IS NOT OBLIGATED TO LOOK BEYOND THE CERTIFICATE OF TITLE CANNOT BE APPLIED WHERE THERE IS NO QUESTION AS TO THE TITLE OF THE MORTGAGOR AND WHERE A DIFFERENT PERSON MORTGAGED THE PROPERTY.

- B. A MORTGAGEE, SPECIALLY ONE WHO IS IN THE LENDING BUSINESS, IS LEGALLY REQUIRED TO TAKE THE NECESSARY PRECAUTIONS WHICH PRUDENCE WOULD DICTATE, BEFORE ENTERING INTO A MORTGAGE CONTRACT.^[19]

In the present case, since it is no longer disputed that the mortgagors were not the owners of the property subject of the petition the question that remains is whether Ernesto and Dominador are mortgagees in good faith.

Petitioners contend that the principle regarding innocent purchasers for value enunciated by the CA in its decision is not applicable to the present case because in the cases cited by the CA there was no question that the mortgagors were the real owners of the property that was mortgaged, while in the instant case, the mortgagors were impostors who pretended as the real owners of the property.

We do not agree. The principle of "innocent purchasers for value" is applicable to the present case.

Under Article 2085 of the Civil Code, one of the essential requisites of the contract of mortgage is that the mortgagor should be the absolute owner of the property to be mortgaged; otherwise, the mortgage is considered null and void.^[20] However, an exception to this rule is the doctrine of "mortgagee in good faith." Under this doctrine, even if the mortgagor is not the owner of the mortgaged property, the mortgage contract and any foreclosure sale arising therefrom are given effect by reason of public policy.^[21] This principle is 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.^[22] This is the same rule that underlies the principle of "innocent purchasers for value" cited by the CA in its decision. The prevailing jurisprudence is that a mortgagee has a right to rely in good faith on the certificate of title of the mortgagor to the property given as security and in the absence of any sign that might arouse suspicion, has no obligation to undertake further investigation.^[23] Hence, even if the mortgagor is not the rightful owner of, or does not have a valid title to, the mortgaged property, the mortgagee in good faith is, nonetheless, entitled to protection.^[24]

For persons, more particularly those who are engaged in real estate or financing business like herein respondents Ernesto and Dominador Alzona, to be considered as mortgagees in good faith, jurisprudence requires that they should take the necessary precaution expected of a prudent man to ascertain the status and

condition of the properties offered as collateral and to verify the identity of the persons they transact business with, particularly those who claim to be the registered property owners.^[25]

In the instant case, the CA affirmed the ruling of the trial court that Ernesto and Dominador are mortgagees in good faith. The trial court gave credence to Ernesto's testimony that he conducted a credit investigation before he approved the loan sought and the property mortgaged. It is well settled in our jurisdiction that the determination of credibility of witnesses is properly within the domain of the trial court as it is in the best position to observe their demeanor and bodily movements.

^[26] Further, findings of the trial court with respect to the credibility of witnesses and their testimonies are entitled to great respect, and even finality, unless said findings are arbitrary, or facts and circumstances of weight and influence have been overlooked, misunderstood, or misapplied by the trial judge which, if considered, would have affected the case.^[27] These findings are binding on this Court especially when affirmed by the appellate court.^[28] After a re-examination of the evidence presented, we find no cogent reason to depart from this rule.

Indeed, a perusal of the testimony of Ernesto proves that he exercised the necessary precautions to ascertain the status of the property sought to be mortgaged and the identity of the mortgagors. During his cross-examination he testified as follows:

q. And according to you, you made a credit investigation of the property in question?

a. Yes, sir.

q. And you went to the place because according to you of a sketch given to you by Estela?

a. Yes, sir.

q. Where in Brgy. Banlic is the property specifically located in relation to any landmark?

Pampolina: The question is rather vague, Your Honor.

You mentioned perhaps a place that is known that is near the place.

Court: Witness may answer. Where in Brgy. Banlic is the property located, Mr. Witness?

a. It is about five (5) houses away before reaching the junction going to Brgy. Mamatid and in the corner, there is the Rural Bank of Cabuyao, sir.

Mendoza: You were only equipped with a sketch given to you by Estela. How were you able to see specifically the property?

- a. I inquired from the neighbors, sir.
- q. Who among the neighbors did you inquire?
- a. The first one is a male residing.....

Court: The question is who?

- a. Felix Icepel and the second one is Auring Sales, wife of Francisco Sales, sir.
- q. When you asked these persons, did you ask where was Maria Sales?
- a. No, sir.
- q. Did this Felix Icepel pointed to you the house of Bernardo Sales and Maria Sales?
- a. Yes, sir.
- q. Did you also ask Auring Sales about the house of Maria Sales?
- a. Yes, sir.
- q. Why did you ask again Auring Sales about the house of Maria Sales considering that you've asked Felix Icepel about this.
- a. Because I would like to have two witnesses, sir.
- q. Aside from asking their houses, did you ask whether Maria Sales and Bernardo Sales were there?
- a. I did not ask, sir.

Court: Considering that Auring's surname is Sales and the one applying for a loan from you is also surnamed Sales, did you ask her if she has any relation with the Saleses?

- a. Yes, ma'am. She even volunteered....
- q. What was the answer?
- a. That she is the daughter-in-law of Bernardo Sales and Maria Sales, sir.
- q. You also said that Auring is the wife of Francisco Sales?
- a. Yes, ma'am.
- q. And Francisco Sales is one of the children of Maria Sales and Bernardo Sales?