

SECOND DIVISION

[G.R. No. 125607, March 18, 2004]

RUFINA C. CAYANA, JOSEFINA C. RABINA, MERCEDES C. DE GUZMAN, AND SUSANA C. SAMBALE, PETITIONERS, VS. COURT OF APPEALS, SPS. PASTOR & ROSITA CAYABYAB, SPS. MARCELIANO & ROSALIA CAYABYAB, SPS. RAFAEL & ROSEMARIE CAYABYAB AND INSURANCE CORP. OF THE PHILIPPINES, RESPONDENTS.

DECISION

TINGA, J.:

The petitioners, Rufina Cayana, Josefina Rabina, Mercedes de Guzman and Susana Sambale, and respondents Pastor and Marceliano Cayabyab are children of the spouses Raymundo and Eulalia Cayabyab. The other respondents, Rosita and Rosalia Cayabyab are the wives of Pastor and Marceliano Cayabyab, respectively. Respondent Rosemarie Cayabyab-Ramos is the daughter of Marceliano Cayabyab, while respondent Rafael Ramos is the former's husband. Their dispute involves two parcels of land^[1] specifically described thus:

First Parcel — A parcel of land Lot A, (LRC), Psd-231284, being a portion of Plan Psu-136181, LRC Rec. No. N—8805, situated in Rosario, Lingayen, Pangasinan. Bounded on the E by Mactec River; SE by Agapito Cabrera; SW by Anselmo Cabrera; NW by Lot B of the subdivision plan, containing an area of 11,735 square meters, more or less. Covered by TCT No. 29332 and assessed at P1,730.00; and

Second Parcel — A parcel of land Lot 2-A of the subdivision plan Psd-36621, being a portion of Lot 2 described on Plan Psu-70452, GLRO Rec. No. 41762, situated in Rosario, Lingayen, Pangasinan. Bounded on the N by Ludovico Cayabyab & Agapito Cabrera; E by Eduvejas Cabrera and Lot 2-B of subdivision plan; S by Lot 2-B and W by Clemente Cruz, containing an area of 20,000 square meters more or less. Covered by TCT No. 117094, declared under Tax Decl. No. 29333 and assessed at P2,600.00.

It appears that Raymundo Cayabyab, with the marital consent of Eulalia Cayabyab, sold the First and Second Parcels to Pastor Cayabyab by virtue of two *Deeds of Absolute Sale*^[2] respectively dated March 3, 1976 and May 13, 1965. Thereupon, Transfer Certificates of Title (TCTs) No. 117134 and 117094 covering the First and Second Parcels, respectively, were issued in the name of Pastor Cayabyab.

After the death of Raymundo Cayabyab on March 20, 1976, his wife Eulalia Cayabyab executed an *Affidavit of Adverse Claim*,^[3] dated June 4, 1976, on the subject parcels of land, alleging that the *Deeds of Absolute Sale* in favor of Pastor Cayabyab were forgeries. However, on June 17, 1976, she executed another

Affidavit^[4] recognizing Pastor Cayabyab's title and requesting the cancellation of the adverse claims earlier annotated on the titles of the subject properties.

On February 9, 1977, Eulalia Cayabyab, together with her children, Marceliano, Mercedes, Rufina, Josefina, Susana and Alfredo, filed a *Complaint*^[5] against Pastor and Rosita Cayabyab for the annulment of the *Deeds of Absolute Sale* dated March 3, 1976 and May 13, 1965 and the corresponding TCT Nos. 117134 and 117094, and reconveyance of the First and Second Parcels. They alleged that both parcels were fraudulently registered in the name of Pastor Cayabyab by means of the forged *Deeds of Absolute Sale*. The case was docketed as Civil Case No. 15298.

On February 28, 1977, Pastor and Rosita Cayabyab entered into an agreement of counter guaranty with the Insurance Corporation of the Philippines (ICP) with respect to the Second Parcel.

On June 12, 1977, Pastor Cayabyab mortgaged^[6] the First Parcel to the Rural Bank of Urbiztondo.

On October 10, 1977, Pastor Cayabyab sold the First Parcel to Rosafina Reginaldo for P15,000.00 by virtue of a *Deed of Absolute Sale*.^[7] Subsequently, TCT No. 117134 was cancelled and TCT No. 124304^[8] was issued in the name of Rosafina Reginaldo on October 11, 1977. On the same day, the mortgage over the First Parcel was cancelled.^[9]

On December 23, 1977, Rosafina Reginaldo mortgaged^[10] the First Parcel to the Rural Bank of Urbiztondo to secure a loan in the amount of P5,000.00.

Meanwhile, the proceedings in Civil Case No. 15298 proceeded. Pastor and Rosita Cayabyab filed an Answer asserting the validity of the *Deeds of Absolute Sale* but were subsequently declared in default after failing to appear at the pre-trial conference. Thus, the plaintiffs were allowed to present evidence ex-parte.

In a decision^[11] dated June 17, 1978, the then Court of First Instance of Pangasinan declared the *Deeds of Absolute Sale* dated May 13, 1965 and March 3, 1976, and the corresponding TCT Nos. 117094 and 117134 covering the Second and First Parcels, respectively, null and void. The court, however, denied the prayer for reconveyance in view of the plaintiffs' evidence attesting to the fact that Eulalia Cayabyab is still the owner and possessor of the subject properties. No appeal was taken and the decision consequently became final.

On April 21, 1981, the mortgage over the First Parcel was foreclosed and the Rural Bank of Urbiztondo, as the highest bidder, bought the property.^[12] The bank consolidated its title on August 2, 1982^[13] and TCT No. 142479^[14] cancelling TCT No. 124304 was issued in its name on August 19, 1982.

In a *Deed of Absolute Sale*^[15] dated September 3, 1982, the Rural Bank of Urbiztondo sold the First Parcel to Marceliano and Rosalia Cayabyab for the amount of P7,221.95. Two days later, the latter were issued TCT No. 142887^[16] cancelling TCT No. 142479.

For the amount of P10,000.00, Marceliano and Rosalia Cayabyab sold the First Parcel to Rafael and Rosemarie Ramos by virtue of a *Deed of Absolute Sale of Real*

Estate Property^[17] dated January 14, 1983. On January 25, 1983, TCT No. 143859^[18] cancelling TCT No. 142887 was issued in the name of the Ramos spouses.

On June 8, 1983, the petitioners herein as plaintiffs, filed with the Regional Trial Court of Lingayen, Pangasinan, Branch 37, a *Verified Complaint*^[19] docketed as Civil Case No. 15937 against Pastor and Rosita Cayabyab, Marceliano and Rosalia Cayabyab, Rafael and Rosemarie Ramos and ICP. They prayed for the annulment of the deeds of sale in favor of Rosafina Reginaldo, Marceliano and Rosalia Cayabyab, and Rafael Ramos and Rosemarie Cayabyab; cancellation of TCT Nos. 124304, 142479, 142887, and 143859 issued in favor of Rosafina Reginaldo, the Rural Bank of Urbiztondo, Marceliano and Rosalia Cayabyab and Rafael and Rosemarie Ramos, respectively; and recovery of possession of the First and Second Parcels by virtue of an alleged deed of donation *inter vivos* purportedly executed by Eulalia Cayabyab in favor of the petitioners herein.

As regards the Second Parcel, the plaintiffs prayed that ICP or Pastor Cayabyab, in whose name TCT No. 117094 remained, be ordered to surrender the title. It appears that ICP was not served with summons because it had already ceased to exist due to bankruptcy.^[20]

The plaintiffs theorized that the documents sought to be annulled are fictitious, simulated and entered into in bad faith as the defendants had full knowledge of the pendency of, as well as the consequent decision in, Civil Case No. 15298.

On the other hand, the defendants claimed that all the transactions over the First Parcel were entered into free from all liens and encumbrances not inscribed in the title.

Recognizing the final decision in Civil Case No. 15298 on the nullity of the *Deeds of Absolute Sale* and the corresponding TCTs issued in favor of Pastor Cayabyab, the trial court rendered on August 22, 1989, a *Decision* in Civil Case No. 15937 in favor of the plaintiffs, the dispositive portion of which provides:

WHEREFORE, judgment is hereby rendered ordering:

1. The plaintiffs to be the true and lawful owners over the landholdings in question;
2. The annulment of all documents pertaining thereto; namely, Exhs. C, D, & E;
3. The cancellation of TCT No. 124304, TCT No. 142479; TCT No. 142887 & TCT No. 143859;
4. The defendants restore possession of the landholdings in question to plaintiffs;
5. The defendants to pay the plaintiffs jointly and severally the amount of P20,000.00 as moral damages;
6. The defendants to pay the plaintiffs jointly and severally the amount of P5,000.00 as/for attorney's fees;

7. The defendant Pastor Cayabyab and/or Insurance Corporation of the Philippines to surrender TCT No. 117094 free from all liens and encumbrances;
8. The defendants to pay the plaintiffs jointly and severally the amount of P5,000.00 as exemplary damages;
9. The dismissal of defendants' counterclaim; and
10. The defendants to pay the costs of this suit.^[21]

The respondents herein as appellants appealed to the Court of Appeals, contending that the trial court erred in applying the principle of *res judicata* to the judgment in Civil Case No. 15298. According to them, the institution of Civil Case No. 15937 resulted in the joinder of issues and allowed them to adduce evidence to prove ownership and possession of the subject parcels of land.

Agreeing with the appellants, the appellate court in its *Decision*^[22] dated August 21, 1995, held that the principle of *res judicata* is inapplicable, there being no identity of the causes of action in Civil Case No. 15298 and Civil Case No. 15937. While both cases were for the annulment of public documents, the former covered only the *Deeds of Absolute Sale* dated March 3, 1976 and May 13, 1965 and the corresponding TCTs for the First and Second Parcels. On the other hand, the latter case covered not only the annulment of the subsequent transactions over the subject parcels of land but also the recovery of possession on the basis of the alleged deed of donation *inter vivos* executed by Eulalia Cayabyab.

The Court of Appeals also upheld the validity of the deeds of sale and the corresponding TCTs in favor of the appellants, declaring that the affidavit cancelling the adverse claim annotated in TCT No. 117134 was duly admitted; that the subsequent sales transactions have not been proven to be simulated or fictitious; that no notice of *lis pendens* was recorded in the title; and that the appellees were not able to prove their claim of title having failed to present the original or certified true copy of the alleged deed of donation *inter vivos* or to prove the existence and due execution of the original deed.

Hence, the appellate court reversed the *Decision* of the trial court, accordingly declaring that the deeds of sale as well as the TCTs which emanated from them valid and enforceable, and the appellants the true and lawful owners and possessors of the properties in question. The Court of Appeals denied the appellees' *Motion for Reconsideration in its Resolution*^[23] dated July 11, 1996.

In the instant *Verified Petition*^[24] dated July 30, 1996, the petitioners reiterate their argument that the *Deeds of Absolute Sale* dated March 3, 1976 and May 13, 1965, the corresponding TCTs covering the First and Second Parcels, and the subsequent transfers of the subject properties are all null and void by virtue of the final judgment in Civil Case No. 15298 declaring them to be so. They allege that a notice of *lis pendens* and an affidavit of adverse claim were duly annotated on the TCTs covering the two parcels of land. Hence, Rosafina Reginaldo, Marceliano and Rosalia Cayabyab, and Rafael and Rosemarie Ramos should be considered purchasers in bad faith. The petitioners further claim that the considerations for the subsequent transfers were grossly inadequate leading to the conclusion that the respondents

were motivated by a desire to execute fictitious deeds of conveyance. The petitioners also insist that the First and Second Parcels were donated to the petitioners by their mother, Eulalia Cayabyab, through an alleged *Donation Inter Vivos* attached to the petition as Annex "F". Finally, they reiterate that Pastor Cayabyab and ICP entered into a contract of guaranty over the Second Parcel despite the adverse claim and notice of lis pendens annotated on the title.

In their *Comment*^[25] dated October 8, 1997, the respondents contend that whatever doubts may have been raised by Eulalia Cayabyab on the validity of Pastor Cayabyab's title were removed when she executed the *Affidavit* requesting the cancellation of the adverse claims inscribed in the titles. Hence, the *Deeds of Absolute Sale* dated March 3, 1976 and May 13, 1965 in favor of Pastor Cayabyab are legal and valid. The deed of donation *inter vivos* allegedly executed by Eulalia Cayabyab did not vest ownership and possession over the subject properties in favor of the petitioners because of the prior sale to Pastor Cayabyab. Besides, Eulalia Cayabyab did not have the right to donate the subject properties to the petitioners because there was no previous partition of the intestate estate of Raymundo Cayabyab.

In a *Resolution* dated July 27, 1998, the Court denied the instant petition for non-compliance with the *Resolution* of February 25, 1998, requiring the petitioners to file a reply to the respondents' *Comment*. The petitioners filed a *Motion for Reconsideration with Reply*^[26] dated September 21, 1998. In our *Resolution* of November 16, 1998, we granted the motion, reinstated and gave due course to the petition and required the parties to submit their respective *Memoranda*.^[27]

The pivotal issue is whether the decision in Civil Case No. 15298 operates to bar the respondents' defenses and counterclaims in Civil Case No. 15937.

The petitioners insist that the decision of the trial court in Civil Case No. 15298 has settled with finality the nullity of Pastor Cayabyab's title. Following the principle of *res judicata*, the respondents, as transferees of Pastor Cayabyab, should not have been allowed to adduce evidence to prove their ownership of the subject parcels of land.

The appellate court, however, ruled that the principle of *res judicata* does not apply there being no identity of causes of action in the two cases.

The trial court and the appellate court both erred in the manner by which they treated and applied the final decision in Civil Case No. 15298 to the instant case. This error apparently stems from a misreading of the provisions in the 1997 Rules of Civil Procedure on the effect of judgments. Section 47, Rule 39 thereof provides:

SEC. 47. *Effect of judgments or final orders*.—The effect of a judgment or final order rendered by a court of the Philippines, having jurisdiction to pronounce the judgment or final order, may be as follows:

(a) In case of a judgment or final order against a specific thing, or in respect to the probate of a will, or the administration of the estate of a deceased person, or in respect to the personal, political, or legal condition or status of a particular person or his relationship to another, the judgment or final order is conclusive upon the title to the thing, the will or administration, or the condition, status or relationship of the