

THIRTEENTH DIVISION

[CA-G.R. CV NO. 95705, May 30, 2014]

DOROTEO C. GAERLAN^[*], PLAINTIFF-APPELLANT, VS. YOUNG MEN'S CHRISTIAN ASSOCIATION OF THE PHILIPPINES, INC. (YMCA), HERMOGENES S. DECANO, PHILAMER C. CELL, AS PRESIDENT AND NATIONAL GENERAL SECRETARY OF YMCA, AND BANCO DE ORO UNIVERSAL BANK (ALSO KNOWN AS BANCO DE ORO), DEFENDANTS-APPELLEES.

D E C I S I O N

SALANDANAN-MANAHAN, J.:

This is an appeal from the September 11, 2009 Decision^[1] of the Regional Trial Court, Branch 50, Manila ("trial court" for brevity) in Civil Case No. 03-108700 for "Nullity of Mortgage and Extra-judicial Foreclosure of TCT No. 148224 with Prayer for a Temporary Restraining Order and/or Preliminary Injunction with Damages"^[2], the dispositive portion of which reads:

"WHEREFORE, in view of the foregoing disquisition, this case is hereby DISMISSED."^[3]

Factual Antecedents

The property subject of this present controversy is designated as Lot 14-A-3 ("subject property" for brevity) situated in the City of Manila^[4] with an area of two thousand square meters (2,000 sq. mts.).^[5] The subject property is a portion of a parcel of land covered by Transfer Certificate of Title No. 148224^[6] (TCT No. 148224) registered in the name of defendant-appellee Young Men's Christian Association of the Philippines, Inc. (defendant-appellee "YMCA" for brevity).^[7]

Plaintiff-appellant Doroteo C. Gaerlan ("plaintiff-appellant" for brevity) averred that he is the lessee of the subject property. The lease is embodied in plaintiff-appellant and defendant-appellee YMCA's "Memorandum of Agreement"^[8] ("MOA" for brevity) dated January 31, 1996.^[9] The MOA provided, among others, that plaintiff-appellant will lease the subject property for a period of twenty five (25) years for a monthly rental of one hundred thousand pesos (Php100,000.00).^[10] Plaintiff-appellant also agreed to subsidize monthly at Php100,000.00 and at Php200,000.00 defendant-appellee YMCA's salaries and operations, and the operation of YMCA International Hostel, respectively.^[11]

Plaintiff-appellant added that defendant-appellee YMCA's TCT No. 148224 covering the subject property have restrictions reflected on its Memorandum of Encumbrances^[12]. One of the restrictions is annotated as Entry No. 6522/T-148224^[13] which stated that the subject property "shall neither be sold nor

mortgaged”^[14]. However, despite such restriction, defendant-appellee YMCA executed a Real Estate Mortgage^[15] (“REM” for brevity) dated November 9, 1999 over the subject property as security for the five million pesos (Php5,000,000.00)^[16] loan it obtained from defendant-appellee Banco De Oro (“defendant-appellee BDO” for brevity).^[17] On June 13, 2001, defendant-appellee YMCA executed an amendment to the REM^[18] in order to reflect the increase in the loan amount from five million pesos (Php5,000,000.00) to eight million pesos (Php8,000,000.00).^[19]

Subsequently, defendant-appellee BDO foreclosed the subject property due to defendant-appellee YMCA’s failure to pay its obligation under the REM.^[20] The subject property was sold to defendant-appellee BDO as the highest bidder. Later on, defendant-appellee BDO consolidated its ownership over the subject property.^[21]

According to plaintiff-appellant, the REM and the foreclosure of the subject property were invalid because his leasehold right over such property was affected.^[22]

For its part, defendant-appellee BDO principally argued that the REM and the foreclosure were valid. This is because, according to defendant-appellee BDO, the restriction to sell or mortgage the subject property which is annotated as Entry No. 6522/T-148224^[23] was already cancelled per annotation of Entry No. 3985/T-148224^[24] dated October 31, 1985 at the back of defendant-appellee YMCA’s TCT No. 148224.^[25]

Defendant-appellee BDO added that plaintiff-appellant is not a real party-in-interest. This is because, according to defendant-appellee BDO, plaintiff-appellant was not a party to the REM.^[26]

On September 11, 2009, the trial court rendered the assailed Decision^[27] dismissing the case which prompted plaintiff-appellant to interpose this appeal premised on perceived errors committed by the court *a quo*, to wit:

Assignment of Errors

I.

THE HONORABLE LOWER COURT GRAVELY ERRED IN HOLDING THAT DEFENDANT-APPELLEE BDO IS A MORTGAGEE IN GOOD FAITH DESPITE THE FACT THAT WHEN TCT NO. 148224 WAS MORTGAGED BY DEFENDANT-APPELLEE YMCA ON 9 NOVEMBER 1999 A PROHIBITION FOR ITS SALE AND MORTGAGE DATED 1982 WERE ALREADY CLEARLY ANNOTATED ON THE FACE OF ITS MEMORANDUM OF ENCUMBRANCE AND THAT IT HAS KNOWLEDGE THAT PART OF TCT NO. 148224 IS BEING USED AS A COMMERCIAL SPACE.

II

THE HONORABLE LOWER COURT GRAVELY ERRED IN NOT CONSIDERING THAT SINCE PLAINTIFF-APPELLANT IS A LESSEE AND DEVELOPER OF THE TCT NO. 148224 HE IMMEDIATELY BECAME A REAL PARTY IN INTEREST WHEN ITS PROHIBITION TO SELL AND MORTGAGE WAS VIOLATED BY DEFENDANT-APPELLEES YMCA AND BDO WHEN A

CONTRACT OF MORTGAGE THAT RESULTED TO ITS FORECLOSURE SALE WAS EXECUTED.^[28]

Our Ruling

We discuss the assigned errors in reverse order.

Real Party-in-Interest

Plaintiff-appellant averred that defendant-appellees YMCA and BDO's violation of the prohibition to sell or mortgage made plaintiff-appellant a real party-in-interest considering that plaintiff-appellant is a registered lessee and developer of the subject property.^[29]

We concur with the trial court's finding that plaintiff-appellant is not a real party-in-interest.

Section 2, Rule 3 of the Rules of Court provides that:

"SEC. 2. Parties in interest. - A real party in interest is the party who stands to be benefited or injured by the judgment in the suit, or the party entitled to the avails of the suit. Unless otherwise authorized by law or these Rules, every action must be prosecuted or defended in the name of the real party in interest." (*Emphasis Added*)

Moreover, settled is the rule that parties to a contract are the real parties-in-interest in an action upon it. This rule is further explained in *Spouses Oco vs. Limbaring*^[30]:

"The parties to a contract are the real parties in interest in an action upon it, as consistently held by the Court. Only the contracting parties are bound by the stipulations in the contract; they are the ones who would benefit from and could violate it. Thus, one who is not a party to a contract, and for whose benefit it was not expressly made, cannot maintain an action on it. One cannot do so, even if the contract performed by the contracting parties would incidentally inure to one's benefit.

As an exception, parties who have not taken part in a contract may show that they have a real interest affected by its performance or annulment. In other words, those who are not principally or subsidiarily obligated in a contract, in which they had no intervention, may show their detriment that could result from it." (*Emphasis Added*)

Here, plaintiff-appellant is not a party to the mortgage contracts - the REM^[31] and amendment to the REM^[32]. Neither is plaintiff-appellant legally liable for defendant-appellee YMCA's loan from defendant-appellee BDO.

To show material interest, plaintiff-appellant argued that he is a registered lessee of the subject property. However, the evidence on record did not support such claim. The Memorandum of Encumbrances^[33] of the subject property's TCT No. 148224^[34] bore no indication of a lease agreement between plaintiff-appellant and defendant-appellee YMCA.

Consequently, defendant-appellee BDO is not bound by such alleged lease agreement pursuant to Article 1648 of the New Civil Code and Section 51 of Presidential Decree No. 1529, otherwise known as the Land Registration Decree, which respectively provide:

"Art. 1648. Every lease of real estate may be recorded in the Registry of Property. Unless a lease is recorded, it shall not be binding upon third persons."

"Section 51. Conveyance and other dealings by registered owner. An owner of registered land may convey, mortgage, lease, charge or otherwise deal with the same in accordance with existing laws. He may use such forms of deeds, mortgages, leases or other voluntary instruments as are sufficient in law. But no deed, mortgage, lease, or other voluntary instrument, except a will purporting to convey or affect registered land shall take effect as a conveyance or bind the land, but shall operate only as a contract between the parties and as evidence of authority to the Register of Deeds to make registration.

The act of registration shall be the operative act to convey or affect the land insofar as third persons are concerned, and in all cases under this Decree, the registration shall be made in the office of the Register of Deeds for the province or city where the land lies."

The Supreme Court declared in *Land Bank of the Philippines vs. AMS Farming Corporation*^[35]:

"The consequence of the non-registration of the 8 August 1991 MOA is clearly set forth in Article 1648 of the Civil Code, which states that, 'Every lease of real estate may be recorded in the Registry of Property. Unless a lease is recorded, it shall not be binding on third persons.' The same principle is adopted by Section 51 of Presidential Decree No. 1529, otherwise known as the Land Registration Decree, which provides that no deed, mortgage, lease or other voluntary instrument – except a will – purporting to convey or affect registered land shall take effect as a conveyance or bind the land until its registration. Thus, if the lease of a piece of land covered by a certificate of title is not registered, it is binding only between the lessor and the lessee but it does not affect innocent third persons."

Mortgagee in Good Faith

Plaintiff-appellant contend that defendant-appellee BDO was a mortgagee in bad faith for its failure to exercise due diligence required of a banking institution before entering into a REM with defendant-appellee YMCA.^[36] According to plaintiff-appellant, the subject property is prohibited from being sold or mortgaged pursuant to Entry No. 6522/T-148224 which is annotated on the Memorandum of Encumbrances of the subject property's TCT No. 148224.^[37] Plaintiff-appellant added that defendant-appellee likewise failed to check the authority of the persons who mortgaged the subject property.^[38] Consequently, the foreclosure and sale of the subject property were null and void.^[39]

Plaintiff-appellant's contentions are unmeritorious.