Republic of the Philippines
Supreme Court
Manila

FIRST DIVISION

PRUDENTIAL BANK (now BANK OF THE PHILIPPINE ISLANDS),
Petitioner,

- versus -

RONALD RAPANOT and HOUSING & LAND USE REGULATORY BOARD,
Respondents.

G.R. No. 191636

Present:

SERENO, *C.J.*, Chairperson,
LEONARDO-DE CASTRO,
DEL CASTILLO,
PERLAS-BERNABE, and
CAGUIOA, *JJ.*

Promulgated:

JAN 16 2017

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DECISION

CAGUIOA, *J.*:

Only questions of law may be raised in petitions for review on *certiorari* brought before this Court under Rule 45, since this Court is not a trier of facts. While there are recognized exceptions which warrant review of factual findings, mere assertion of these exceptions does not suffice. It is incumbent upon the party seeking review to overcome the burden of demonstrating that review is justified under the circumstances prevailing in his case.

The Case

Before the Court is an Appeal by *Certiorari*[1] under Rule 45 of the Rules of Court (Petition) of the Decision[2] dated November 18, 2009 (questioned Decision) rendered by the Court of Appeals - Seventh Division (CA). The questioned Decision stems from a complaint filed by herein private respondent Ronald Rapanot (Rapanot) against Golden Dragon Real Estate Corporation (Golden Dragon), Golden Dragon's President Ma.

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1 *Rollo*, pp. 8-23.

2 Id. at 28-41. Penned by Associate Justice Antonio L. Villamor, with Associate Justices Bienvenido L. Reyes (now a Member of this Court) and Japar B. Dimaampao, concurring.

Victoria M. Vazquez[3] and herein petitioner, Bank of the Philippine Islands, formerly known as Prudential Bank[4] (Bank) for Specific Performance and Damages (Complaint) before the Housing and Land Use Regulatory Board (HLURB).[5]

The Petition seeks to reverse the questioned Decision insofar as it found that the Bank (i) was not deprived of due process when the Housing and Land Use Arbiter (Arbiter) issued his Decision dated July 3, 2002 without awaiting submission of the Bank's position paper and draft decision, and (ii) cannot be deemed a mortgagee in good faith with respect to Unit 2308-B2 mortgaged by Golden Dragon in its favor as collateral.[5-a]

The Facts

Golden Dragon is the developer of Wack-Wack Twin Towers Condominium, located in Mandaluyong City. On May 9, 1995, Rapanot paid Golden Dragon the amount of ₱453,329.64 as reservation fee for a 41.1050-square meter unit in said condominium, particularly designated as Unit 2308-B2,[6] and covered by Condominium Certificate of Title (CCT) No. 2383 in the name of Golden Dragon.[7]

On September 13, 1995, the Bank extended a loan to Golden Dragon amounting to ₱50,000,000.00[8] to be utilized by the latter as additional working capital.[9] To secure the loan, Golden Dragon executed a Mortgage Agreement in favor of the Bank, which had the effect of constituting a real estate mortgage over several condominium units owned and registered under Golden Dragon's name. Among the units subject of the Mortgage Agreement was Unit 2308-B2.[10] The mortgage was annotated on CCT No. 2383 on September 13, 1995.[11]

On May 21, 1996, Rapanot and Golden Dragon entered into a Contract to Sell covering Unit 2308-B2. On April 23, 1997, Rapanot completed payment of the full purchase price of said unit amounting to ₱1,511,098.97.[12] Golden Dragon executed a Deed of Absolute Sale in favor of Rapanot of the same date.[13] Thereafter, Rapanot made several verbal demands for the delivery of Unit 2308-B2.[14]

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3 Also spelled as "Vasquez" elsewhere in the records.
4 *Rollo*, p. 30.
5 Id. at 31.
5-a Id. at 16-20.
6 Id. at 29.
7 Id. at 48.
8 Id. at 29.
9 Id. at 44.
10 Id. at 44-46.
11 Id. at 48 (dorsal portion).
12 Id. at 30, 68. ₱1,511,098.87 as reflected on page 68.
13 See id. at 11, 30.
14 Id. at 30.

Prompted by Rapanot's verbal demands, Golden Dragon sent a letter to the Bank dated March 17, 1998, requesting for a substitution of collateral for the purpose of replacing Unit 2308-B2 with another unit with the same area. However, the Bank denied Golden Dragon's request due to the latter's unpaid accounts.[15] Because of this, Golden Dragon failed to comply with Rapanot's verbal demands.

Thereafter, Rapanot, through his counsel, sent several demand letters to Golden Dragon and the Bank, formally demanding the delivery of Unit 2308-B2 and its corresponding CCT No. 2383, free from all liens and encumbrances.[16] Neither Golden Dragon nor the Bank complied with Rapanot's written demands.[17]

Proceedings before the HLURB

On April 27, 2001, Rapanot filed a Complaint with the Expanded National Capital Region Field Office of the HLURB.[18] The Field Office then scheduled the preliminary hearing and held several conferences with a view of arriving at an amicable settlement. However, no settlement was reached.[19]

Despite service of summons to all the defendants named in the Complaint, only the Bank filed its Answer.[20] Thus, on April 5, 2002, the Arbiter issued an order declaring Golden Dragon and its President Maria Victoria Vazquez in default, and directing Rapanot and the Bank to submit their respective position papers and draft decisions (April 2002 Order).[21] Copies of the April 2002 Order were served on Rapanot and the Bank *via* registered mail.[22] However, the envelope bearing the copy sent to the Bank was returned to the Arbiter, bearing the notation "refused to receive".[23]

Rapanot complied with the April 2002 Order and personally served copies of its position paper and draft decision on the Bank on May 22, 2002 and May 24, 2002, respectively.[24] In the opening statement of Rapanot's position paper, Rapanot made reference to the April 2002 Order.[25]

On July 3, 2002, the Arbiter rendered a decision (Arbiter's Decision) in favor of Rapanot, the dispositive portion of which reads:

> WHEREFORE, premises considered, judgment is hereby rendered as follows:

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15 Id.
16 Id. at 30-31, 69.
17 Id. at 31, 69.
18 Id. at 31, 70.
19 Id. at 12, 31.
20 Id. at 70.
21 Id.
22 Id. at 34, 75.
23 Id. at 75.
24 Id.
25 Id.

1. Declaring the mortgage over the condominium unit No. 2308-B2 covered by Condominium Certificate of Title No. 2383 in favor of respondent Bank as null and void for violation of Section 18 of Presidential Decree No. 957[;]

2. Ordering respondent Bank to cancel the mortgage on the subject condominium unit, and accordingly, release the title thereof to the complainant;

3. Ordering respondents to pay jointly and severally the complainant the following sums:

   a. P100,000.00 as moral damages,
   b. P100,000.00 as exemplary damages,
   c. P50,000.00 as attorney's fees,
   d. The costs of litigations (sic), and
   e. An administrative fine of TEN THOUSAND PESOS (P10,000.00) payable to this Office fifteen (15) days upon receipt of this decision, for violation of Section 18 in relation to Section 38 of PD 957;

4. Directing the Register of Deeds of Mandaluyong City to cancel the aforesaid mortgage on the title of the subject condominium unit; and

5. Immediate[ly] upon receipt by the complainant of the owner's duplicate Condominium Certificate of Title of Unit 2308-B2, delivery of CCT No. 2383 over Unit 2308-B2 in favor of the complainant free from all liens and encumbrances.

SO ORDERED.[26]

On July 25, 2002, the Bank received a copy of Rapanot's Manifestation dated July 24, 2002, stating that he had received a copy of the Arbiter's Decision.[27] On July 29, 2002, the Bank filed a Manifestation and Motion for Clarification,[28] requesting for the opportunity to file its position paper and draft decision, and seeking confirmation as to whether a decision had indeed been rendered notwithstanding the fact that it had yet to file such submissions.

Subsequently, the Bank received a copy of Rapanot's Motion for Execution dated September 2, 2002,[29] to which it filed an Opposition dated September 4, 2002.[30]

Meanwhile, the Bank's Manifestation and Motion for Clarification remained unresolved despite the lapse of five (5) months from the date of filing. This prompted the Bank to secure a certified true copy of the Arbiter's Decision from the HLURB.[31]

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26 Id. at 31-32.
27 Id. at 12.
28 Id. at 51-54.
29 Id. at 55-58.
30 Id. at 59-62. Based on the records, it appears that Rapanot's Motion for Execution and the Bank's Opposition thereto remain unresolved.
31 Id. at 13.

On January 16, 2003, the Bank filed a Petition for Review with the HLURB Board of Commissioners (HLURB Board) alleging, among others, that it had been deprived of due process when the Arbiter rendered a decision without affording the Bank the opportunity to submit its position paper and draft decision.

The HLURB Board modified the Arbiter's Decision by: (i) reducing the award for moral damages from ₱100,000.00 to ₱50,000.00, (ii) deleting the award for exemplary damages, (iii) reducing the award for attorney's fees from ₱50,000.00 to ₱20,000.00, and (iv) directing Golden Dragon to pay the Bank all the damages the latter is directed to pay thereunder, and settle the mortgage obligation corresponding to Unit 2308-B2.[32]

Anent the issue of due process, the HLURB Board held, as follows:

> x x x x
>
> With respect to the first issue, we find the same untenable. Records show that prior to the rendition of its decision, the office below has issued and duly sent an Order to the parties declaring respondent GDREC in default and directing respondent Bank to submit its position paper. x x x[33] (Underscoring omitted)

Proceedings before the Office of the President

The Bank appealed the decision of the HLURB Board to the Office of the President (OP). On October 10, 2005, the OP issued a resolution denying the Bank's appeal. In so doing, the OP adopted the HLURB's findings.[34] The Bank filed a Motion for Reconsideration, which was denied by the OP in an Order dated March 3, 2006.[35]

Proceedings before the CA

The Bank filed a Petition for Review with the CA on April 17, 2006 assailing the resolution and subsequent order of the OP. The Bank argued, among others, that the OP erred when it found that the Bank (i) was not denied due process before the HLURB, and (ii) is jointly and severally liable with Golden Dragon for damages due Rapanot.[36]

After submission of the parties' respective memoranda, the CA rendered the questioned Decision dismissing the Bank's Petition for Review. On the issue of due process, the CA held:

> Petitioner asserts that it was denied due process because it did not receive any notice to file its position paper nor a copy of the Housing

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32 Id. at 32-33.
33 Id. at 14.
34 Id. at 14-15.
35 Id. at 15.
36 Id. at 34.

Arbiter's Decision. Rapanot, meanwhile, contends that the Housing Arbiter sent petitioner a copy of the April 5, 2002 Order to file position paper by registered mail, as evidenced by the list of persons furnished with a copy thereof. However, according to Rapanot, petitioner "refused to receive" it.

x x x x

In the instant case, there is no denial of due process. Petitioner filed its Answer where it was able to explain its side through its special and affirmative defenses. Furthermore, it participated in the preliminary hearing and attended scheduled conferences held to resolve differences between the parties. Petitioner was also served with respondent's position paper and draft decision. Having received said pleadings of respondent, petitioner could have manifested before the Housing Arbiter that it did not receive, if correct, its order requiring the submission of its pleadings and therefore prayed that it be given time to do so. Or, it could have filed its position paper and draft decision without awaiting the order to file the same. Under the circumstances, petitioner was thus afforded and availed of the opportunity to present its side. It cannot make capital of the defense of denial of due process as a screen for neglecting to avail of opportunities to file other pleadings.[37]

With respect to the Bank's liability for damages, the CA held thus:

Section 18 of PD 957, requires prior written authority of the HLURB before the owner or developer of a subdivision lot or condominium unit may enter into a contract of mortgage. Hence, the jurisdiction of the HLURB is broad enough to include complaints for annulment of mortgage involving violations of PD 957.

Petitioner argues that, as a mortgagee in good faith and for value, it must be accorded protection and should not be held jointly and severally liable with Golden Dragon and its President, Victoria Vasquez.

It is true that a mortgagee in good faith and for value is entitled to protection, as held in ***Rural Bank of Compostela vs. Court of Appeals*** but petitioner's dependence on this ruling is misplaced as it cannot be considered a mortgagee in good faith.

The doctrine of "mortgagee in good faith" is based on the rule that all persons dealing with property covered by a certificate of title, as mortgagees, are not required to go beyond what appears on the face of the title.

However, while a mortgagee is not under obligation to look beyond the certificate of title, the nature of petitioner's business requires it to take further steps to assure that there are no encumbrances or liens on the mortgaged property, especially since it knew that it was dealing with a condominium developer. It should have inquired deeper into the status of the properties offered as collateral and verified if the HLURB's authority to mortgage was in fact previously obtained. This it failed to do.

It has been ruled that a bank, like petitioner, cannot argue that simply because the titles offered as security were clean of any encumbrances or lien, it was relieved of taking any other step to verify the

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37 Id. at 34-36.

> implications should the same be sold by the developer. While it is not expected to conduct an exhaustive investigation of the mortgagor's title, it cannot be excused from the duty of exercising the due diligence required of banking institutions, for banks are expected to exercise more care and prudence than private individuals in their dealings, even those involving registered property, for their business is affected with public interest.
>
> As aforesaid, petitioner should have ascertained that the required authority to mortgage the condominium units was obtained from the HLURB before it approved Golden Dragon's loan. It cannot feign lack of knowledge of the sales activities of Golden Dragon since, as an extender of credit, it is aware of the practices, both good or bad, of condominium developers. Since petitioner was negligent in its duty to investigate the status of the properties offered to it as collateral, it cannot claim that it was a mortgagee in good faith.[38]

The Bank filed a Motion for Reconsideration, which was denied by the CA in a Resolution dated March 17, 2010.[39] The Bank received a copy of the resolution on March 22, 2010.[39-a]

On April 6, 2010, the Bank filed with the Court a motion praying for an additional period of 30 days within which to file its petition for review on *certiorari*.[39-b]

On May 6, 2010, the Bank filed the instant Petition.

Rapanot filed his Comment to the Petition on September 7, 2010.[40] Accordingly, the Bank filed its Reply on January 28, 2011.[41]

Issues

Essentially, the Bank requests this Court to resolve the following issues:

1. Whether or not the CA erred when it affirmed the resolution of the OP finding that the Bank had been afforded due process before the HLURB; and

2. Whether or not the CA erred when it affirmed the resolution of the OP holding that the Bank cannot be considered a mortgagee in good faith.

The Court's Ruling

In the instant Petition, the Bank avers that the CA misappreciated material facts when it affirmed the OP's resolution which denied its appeal. The Bank contends that the CA committed reversible error when it concluded that the Bank was properly afforded due process before the HLURB, and

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38 Id. at 37-40.
39 Id. at 42-43.
39-a Id. at 8.
39-b Id.
40 Id. at 65-89.
41 Id. at 92-99.

when it failed to recognize the Bank as a mortgagee in good faith. The Bank concludes that these alleged errors justify the reversal of the questioned Decision, and ultimately call for the dismissal of the Complaint against it.

The Court disagrees.

Time and again, the Court has emphasized that review of appeals under Rule 45 is "not a matter of right, but of sound judicial discretion."[42] Thus, a petition for review on *certiorari* shall only be granted on the basis of special and important reasons.[43]

As a general rule, only questions of law may be raised in petitions filed under Rule 45.[44] However, there are recognized exceptions to this general rule, namely:

> (1) when the findings are grounded entirely on speculation, surmises or conjectures; (2) **when the inference made is manifestly mistaken, absurd or impossible;** (3) when there is grave abuse of discretion; (4) **when the judgment is based on a misapprehension of facts**; (5) when the findings of facts are conflicting; (6) when in making its findings the Court of Appeals went beyond the issues of the case, or its findings are contrary to the admissions of both the appellant and the appellee; (7) when the findings are contrary to the trial court; (8) when the findings are conclusions without citation of specific evidence on which they are based; (9) when the facts set forth in the petition as well as in the petitioner's main and reply briefs are not disputed by the respondent; (10) when the findings of fact are premised on the supposed absence of evidence and contradicted by the evidence on record; and (11) **when the Court of Appeals manifestly overlooked certain relevant facts not disputed by the parties, which, if properly considered, would justify a different conclusion**. x x x[45] (Emphasis supplied)

The Bank avers that the second, fourth and eleventh exceptions above are present in this case. However, after a judicious examination of the records of this case and the respective submissions of the parties, the Court finds that none of these exceptions apply.

The Bank was not deprived of due process before the HLURB.

The Bank asserts that it never received the April 2002 Order. It claims that it was taken by surprise on July 25, 2002, when it received a copy of Rapanot's Manifestation alluding to the issuance of the Arbiter's Decision on July 3, 2002. Hence, the Bank claims that it was deprived of due process, since it was not able to set forth its "valid and meritorious" defenses for the Arbiter's consideration through its position paper and draft decision.[46]

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42 RULES OF COURT, Rule 45, Section 6.
43 Id.
44 Id. at Section 1.
45 *Ambray and Ambray, Jr. v. Tsourous, et al.*, G.R. No. 209264, July 5, 2016, pp. 6-7.
46 *Rollo*, p. 17.

The Court finds these submissions untenable.

"The essence of due process is to be heard."[47] In administrative proceedings, due process entails "a fair and reasonable opportunity to explain one's side, or an opportunity to seek a reconsideration of the action or ruling complained of. Administrative due process cannot be fully equated with due process in its strict judicial sense, for in the former a formal or trial-type hearing is not always necessary, and technical rules of procedure are not strictly applied."[48]

As correctly pointed out by the CA in the questioned Decision, the Bank was able to set out its position by participating in the preliminary hearing and the scheduled conferences before the Arbiter.[49] The Bank was likewise able to assert its special and affirmative defenses in its Answer to Rapanot's Complaint.[50]

The fact that the Arbiter's Decision was rendered without having considered the Bank's position paper and draft decision is of no moment. An examination of the 1996 Rules of Procedure of the HLURB[51] then prevailing shows that the Arbiter merely acted in accordance therewith when he rendered his decision on the basis of the pleadings and records submitted by the parties thus far. The relevant rules provide:

> **RULE VI – PRELIMINARY CONFERENCE AND RESOLUTION**
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> x x x x
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> Section 4. *Position Papers.* – If the parties fail to settle within the period of preliminary conference, **then they will be given a period of not more than thirty (30) calendar days to file their respective verified position papers, attaching thereto the affidavits of their witnesses and documentary evidence**.
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> **In addition, as provided for by Executive Order No. 26, Series of 1992, the parties shall be required to submit their respective draft decisions within the same thirty (30)-day period**.
>
> Said draft decision shall state clearly and distinctly the findings of facts, the issues and the applicable law and jurisprudence on which it is based. The arbiter may adopt in whole or in part either of the parties' draft decision, or reject both and prepare his own decision.
>
> The party who fails to submit a draft decision shall be fined P2,000.00.

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47 *San Miguel Properties, Inc. v. BF Homes, Inc.*, G.R. No. 169343, August 5, 2015, 765 SCRA 131, 166.

48 Id.

49 *Rollo*, p. 35.

50 Id.

51 Board of Commissioners Resolution No. R-586, series of 1996.

> Section 5. *Summary Resolution* – **With or without the position paper and draft decision[,] the Arbiter shall summarily resolve the case on the basis of the verified pleadings and pertinent records of the Board.** (Emphasis and underscoring supplied)

Clearly, the Arbiter cannot be faulted for rendering his Decision, since the rules then prevailing required him to do so.

The Bank cannot likewise rely on the absence of proof of service to further its cause. Notably, while the Bank firmly contends that it did not receive the copy of the April 2002 Order, it did not assail the veracity of the notation "refused to receive" inscribed on the envelope bearing said order. In fact, the Bank only offered the following explanation respecting said notation:

> 9. The claim that the Bank "refused to receive" the envelope that bore the Order cannot be given credence and is belied by the Bank's act of immediately manifesting before the Housing Arbiter that it had not yet received an order for filing the position paper and draft decision.[52]

This is specious, at best. More importantly, the records show that the Bank gained actual notice of the Arbiter's directive to file their position papers and draft decisions as early as May 22, 2002, when it was personally served a copy of Rapanot's position paper which made reference to the April 2002 Order.[53] This shows as mere pretense the Bank's assertion that it learned of the Arbiter's Decision only through Rapanot's Manifestation.[54] Worse, the Bank waited until the lapse of five (5) months before it took steps to secure a copy of the Arbiter's Decision directly from the HLURB for the purpose of assailing the same before the OP.

The Mortgage Agreement is null and void as against Rapanot, and thus cannot be enforced against him.

The Bank avers that contrary to the CA's conclusion in the questioned Decision, it exercised due diligence before it entered into the Mortgage Agreement with Golden Dragon and accepted Unit 2308-B2, among other properties, as collateral.[55] The Bank stressed that prior to the approval of Golden Dragon's loan, it deployed representatives to ascertain that the properties being offered as collateral were in order. Moreover, it confirmed that the titles corresponding to the properties offered as collateral were free from existing liens, mortgages and other encumbrances.[56] Proceeding from this, the Bank claims that the CA overlooked these facts when it failed to recognize the Bank as a mortgagee in good faith.

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52 *Rollo*, p. 94.
53 Id. at 70, 94.
54 Id. at 52.
55 Id. at 18.
56 Id. at 19.

The Court finds the Bank's assertions indefensible.

First of all, under Presidential Decree No. 957 (PD 957), no mortgage on any condominium unit may be constituted by a developer without prior written approval of the National Housing Authority, now HLURB.[57] PD 957 further requires developers to notify buyers of the loan value of their corresponding mortgaged properties before the proceeds of the secured loan are released. The relevant provision states:

> Section 18. *Mortgages.* – No mortgage on any unit or lot shall be made by the owner or developer without prior written approval of the Authority. Such approval shall not be granted unless it is shown that the proceeds of the mortgage loan shall be used for the development of the condominium or subdivision project and effective measures have been provided to ensure such utilization. The loan value of each lot or unit covered by the mortgage shall be determined and the buyer thereof, if any, shall be notified before the release of the loan. The buyer may, at his option, pay his installment for the lot or unit directly to the mortgagee who shall apply the payments to the corresponding mortgage indebtedness secured by the particular lot or unit being paid for, with a view to enabling said buyer to obtain title over the lot or unit promptly after full payment thereof.

In *Far East Bank & Trust Co. v. Marquez,*[58] the Court clarified the legal effect of a mortgage constituted in violation of the foregoing provision, thus:

> The lot was mortgaged in violation of Section 18 of PD 957. Respondent, who was the buyer of the property, was not notified of the mortgage before the release of the loan proceeds by petitioner. Acts executed against the provisions of mandatory or prohibitory laws shall be void. Hence, **the mortgage over the lot is null and void insofar as private respondent is concerned.**[59] (Emphasis supplied)

The Court reiterated the foregoing pronouncement in the recent case of *Philippine National Bank v. Lim*[60] and again in *United Overseas Bank of the Philippines, Inc. v. Board of Commissioners-HLURB.*[61]

Thus, the Mortgage Agreement cannot have the effect of curtailing Rapanot's right as buyer of Unit 2308-B2, precisely because of the Bank's failure to comply with PD 957.

Moreover, contrary to the Bank's assertions, it cannot be considered a mortgagee in good faith. The Bank failed to ascertain whether Golden Dragon secured HLURB's prior written approval as required by PD 957

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57 The regulatory functions of the National Housing Authority was transferred to the Human Settlements Regulatory Commission (later HLURB) by virtue of Executive Order No. 648, series of 1981, which took effect on February 7, 1981.

58 465 Phil. 276 (2004).

59 Id. at 289.

60 702 Phil. 461 (2013).

61 G.R. No. 182133, June 23, 2015, 760 SCRA 300.

before it accepted Golden Dragon's properties as collateral. It also failed to ascertain whether any of the properties offered as collateral already had corresponding buyers at the time the Mortgage Agreement was executed.

The Bank cannot harp on the fact that the Mortgage Agreement was executed before the Contract to Sell and Deed of Absolute Sale between Rapanot and Golden Dragon were executed, such that no amount of verification could have revealed Rapanot's right over Unit 2308-B2.[62] The Court particularly notes that Rapanot made his initial payment for Unit 2308-B2 as early as May 9, 1995, four (4) months prior to the execution of the Mortgage Agreement. Surely, the Bank could have easily verified such fact if it had simply requested Golden Dragon to confirm if Unit 2308-B2 already had a buyer, given that the nature of the latter's business inherently involves the sale of condominium units on a commercial scale.

It bears stressing that banks are required to exercise the highest degree of diligence in the conduct of their affairs. The Court explained this exacting requirement in the recent case of *Philippine National Bank v. Vila*,[63] thus:

> In *Land Bank of the Philippines v. Belle Corporation*, the Court exhorted banks to exercise the highest degree of diligence in its dealing with properties offered as securities for the loan obligation:
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> > When the purchaser or the mortgagee is a bank, the rule on innocent purchasers or mortgagees for value is applied more strictly. Being in the business of extending loans secured by real estate mortgage, banks are presumed to be familiar with the rules on land registration. Since the banking business is impressed with public interest, they are expected to be more cautious, to exercise a higher degree of diligence, care and prudence, than private individuals in their dealings, even those involving registered lands. Banks may not simply rely on the face of the certificate of title. Hence, they cannot assume that, x x x the title offered as security is on its face free of any encumbrances or lien, they are relieved of the responsibility of taking further steps to verify the title and inspect the properties to be mortgaged. As expected, the ascertainment of the status or condition of a property offered to it as security for a loan must be a standard and indispensable part of the bank's operations. x x x (Citations omitted)
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> **We never fail to stress the remarkable significance of a banking institution to commercial transactions, in particular, and to the country's economy in general. The banking system is an indispensable institution in the modern world and plays a vital role in the economic life of every civilized nation. Whether as mere passive entities for the safekeeping and saving of money or as active instruments of business and commerce, banks have become an ubiquitous presence among the people, who have come to regard them with respect and even gratitude and, most of all, confidence. Consequently, the highest degree of diligence is expected, and high**

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62 See *rollo*, p. 96.

63 G.R. No. 213241, August 1, 2016.

> **standards of integrity and performance are even required, of it.**[64]
> (Emphasis and underscoring supplied)

In loan transactions, banks have the particular obligation of ensuring that clients comply with all the documentary requirements pertaining to the approval of their loan applications and the subsequent release of their proceeds.[65]

If only the Bank exercised the highest degree of diligence required by the nature of its business as a financial institution, it would have discovered that (i) Golden Dragon did not comply with the approval requirement imposed by Section 18 of PD 957, and (ii) that Rapanot already paid a reservation fee and had made several installment payments in favor of Golden Dragon, with a view of acquiring Unit 2308-B2.[66]

The Bank's failure to exercise the diligence required of it constitutes negligence, and negates its assertion that it is a mortgagee in good faith. On this point, this Court's ruling in the case of *Far East Bank & Trust Co. v. Marquez*[67] is instructive:

> Petitioner argues that it is an innocent mortgagee whose lien must be respected and protected, since the title offered as security was clean of any encumbrance or lien. We do not agree.
>
> > "x x x As a general rule, where there is nothing on the certificate of title to indicate any cloud or vice in the ownership of the property, or any encumbrance thereon, the purchaser is not required to explore further than what the *Torrens* Title upon its face indicates in quest for any hidden defect or inchoate right that may subsequently defeat his right thereto. This rule, however, admits of an exception as where the purchaser or mortgagee has knowledge of a defect or lack of title in the vendor, or that he was aware of sufficient facts to induce a reasonably prudent man to inquire into the status of the property in litigation."
>
> Petitioner bank should have considered that it was dealing with a town house project that was already in progress. A reasonable person should have been aware that, to finance the project, sources of funds could have been used other than the loan, which was intended to serve the purpose only partially. Hence, there was need to verify whether any part of the property was already the subject of any other contract involving buyers or potential buyers. **In granting the loan, petitioner bank should not have been content merely with a clean title, considering the presence of circumstances indicating the need for a thorough investigation of the existence of buyers like respondent**. Having been wanting in care and prudence, the latter cannot be deemed to be an innocent mortgagee.

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64 Id. at 8-9.

65 *Far East Bank and Trust Co. (now Bank of the Philippines Islands) v. Tentmakers Group, Inc.*, 690 Phil. 134, 146 (2012).

66 *Rollo*, p. 69.

67 Supra note 58, at 287-288.

> **Petitioner cannot claim to be a mortgagee in good faith. Indeed it was negligent, as found by the Office of the President and by the CA. Petitioner should not have relied only on the representation of the mortgagor that the latter had secured all requisite permits and licenses from the government agencies concerned. The former should have required the submission of certified true copies of those documents and verified their authenticity through its own independent effort.**
>
> **Having been negligent in finding out what respondent's rights were over the lot, petitioner must be deemed to possess constructive knowledge of those rights.** (Emphasis supplied)

The Court can surely take judicial notice of the fact that commercial banks extend credit accommodations to real estate developers on a regular basis. In the course of its everyday dealings, the Bank has surely been made aware of the approval and notice requirements under Section 18 of PD 957. At this juncture, this Court deems it necessary to stress that a person who deliberately ignores a significant fact that could create suspicion in an otherwise reasonable person cannot be deemed a mortgagee in good faith.[68] The nature of the Bank's business precludes it from feigning ignorance of the need to confirm that such requirements are complied with prior to the release of the loan in favor of Golden Dragon, in view of the exacting standard of diligence it is required to exert in the conduct of its affairs.

Proceeding from the foregoing, we find that neither mistake nor misapprehension of facts can be ascribed to the CA in rendering the questioned Decision. The Court likewise finds that contrary to the Bank's claim, the CA did not overlook material facts, since the questioned Decision proceeded from a thorough deliberation of the facts established by the submissions of the parties and the evidence on record.

For these reasons, we resolve to deny the instant Petition for lack of merit.

WHEREFORE, premises considered, the Petition for Review on Certiorari is **DENIED**. The Decision dated November 18, 2009 and Resolution dated March 17, 2010 of the Court of Appeals in CA-G.R. SP No. 93862 are hereby **AFFIRMED**.

SO ORDERED.

ALFREDO BENJAMIN S. CAGUIOA
Associate Justice

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[68] *Land Bank of the Philippines v. Belle Corporation,* G.R. No. 205271, September 2, 2015, p. 13.

WE CONCUR:

MARIA LOURDES P. A. SERENO
Chief Justice
Chairperson

TERESITA J. LEONARDO-DE CASTRO
Associate Justice

MARIANO C. DEL CASTILLO
Associate Justice

ESTELA M. PERLAS-BERNABE
Associate Justice

CERTIFICATION

Pursuant to Section 13, Article VIII of the Constitution, I certify that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.

MARIA LOURDES P. A. SERENO
Chief Justice