



City in Civil Case No. 138-V-03 for annulment of real estate mortgage.

*The Antecedents*

Subject of the present controversy is a 500-square-meter parcel of land situated in the Barrio of Parada, Municipality of Valenzuela, Province of Bulacan (now Valenzuela City, Metro Manila) covered by Transfer Certificate of Title (TCT) No. T-194323<sup>5</sup> (subject property) in the name of the late Juan C. Ramos (Juan) and his spouse, Pilar L. Ramos (Pilar). In a Deed of Real Estate Mortgage<sup>6</sup> (REM) dated January 11, 1999, it appears that Juan and Pilar mortgaged the property, through Parada Consumer and Credit Cooperative, Inc. (PCCCI) as their purported attorney-in-fact, to secure PCCCI's loan obligations with petitioner Land Bank of the Philippines.<sup>7</sup>

Questioning the due execution of the REM, Pilar and her children with Juan: Arturo L. Ramos, Josephine R. Co, Magarita R. Terrenal, Rosalinda R. San Miguel, Evangeline R. Alarte, and Herminia L. Ramos (collectively, respondents), filed a Complaint<sup>8</sup> for annulment of real estate mortgage and damages against petitioner and PCCCI.

Respondents alleged that sometime in 1998, respondent Pilar was granted by PCCCI a loan in the amount of ₱200,000.00. They averred that PCCCI Manager Lilia Ching (Lilia) and General Manager Roberto Salazar (Roberto) induced respondent Pilar to sign several documents and to surrender the owner's copy of the title of the subject property as collateral for her loan. On January 22, 1999, respondent Pilar received the proceeds of her loan.<sup>9</sup>

According to respondents, when Pilar demanded the return of her title following the full payment of her loan on November 12, 2001, PCCCI informed her that it could not release her title because the subject property was mortgaged in favor of petitioner. Upon their own investigation, respondents found out that one of the documents respondent Pilar previously signed was a Special Power of Attorney (SPA) dated December 5, 1998 that purportedly authorized PCCCI to lease, mortgage, sell, or otherwise dispose of the subject property. Notably, the SPA also contained the purported

<sup>5</sup> Id. at 84-86.

<sup>6</sup> Id. at 87-92.

<sup>7</sup> See id. at 58-59.

<sup>8</sup> Records, pp. 1-8.

<sup>9</sup> *Rollo*, p. 58.

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signature of Juan, who died in November 10, 1985.<sup>10</sup> Respondents alleged that PCCCI was able to mortgage the subject property to petitioner through the questioned REM using the SPA.<sup>11</sup>

For its part, petitioner admitted that PCCCI executed the assailed REM covering the subject property to secure its (PCCCI) loan obligations to petitioner.<sup>12</sup> Petitioner averred the following:

Before accepting the subject property as collateral for PCCCI's obligations, it referred the matter to its then LBP Central and Credit Liability Department (now known as LBP Credit Investigation and Appraisal Department) to appraise and inspect the subject property. After appraisal and inspection, it accepted the subject property as collateral for PCCCI's obligations, relying on the questioned SPA.<sup>13</sup>

The REM dated January 11, 1999 was executed and signed by PCCCI officers Lilia and Roberto, together with respondent Pilar, to the exclusion of Juan. According to petitioner, the SPA and REM were presented to the Registry of Deeds and were annotated on the title of the subject property.<sup>14</sup>

When PCCCI failed to settle its obligations, it requested petitioner to restructure its loan for at least two times, resulting in the execution of a Restructuring Agreement<sup>15</sup> dated December 19, 2000, as well as a second Restructuring Agreement<sup>16</sup> and a Comprehensive Surety Agreement,<sup>17</sup> both dated February 28, 2001. Notwithstanding the loan restructuring agreements, PCCCI still failed to pay its obligations to petitioner.<sup>18</sup>

Meanwhile, the RTC declared PCCCI in default upon its failure to file an answer to the complaint.<sup>19</sup>

<sup>10</sup> See Death Certificate, records, p. 9.

<sup>11</sup> *Rollo*, pp. 58-59.

<sup>12</sup> *Id.* at 61.

<sup>13</sup> *Id.* at 63-64.

<sup>14</sup> *Id.*

<sup>15</sup> *Id.* at 94-98.

<sup>16</sup> *Id.* at 99-105.

<sup>17</sup> *Id.* at 106-113.

<sup>18</sup> *Id.* at 64.

<sup>19</sup> *Id.* at 61.

*The Ruling of the RTC*

On December 26, 2011, the RTC rendered its Decision,<sup>20</sup> the dispositive portion of which states:

WHEREFORE, premises considered, this Court rules in favor of the [respondents]. The Special Power of Attorney (SPA) and the Deed of Real Estate Mortgage are hereby declared Null and Void. The Land Bank is directed to cease and desist from foreclosing the property and release the title to the plaintiffs free from lien and encumbrance. [PCCCI] and Land Bank are hereby ordered to pay solidarily the [respondents] P50,000.00 as moral damages, and P30,000.00 as attorney's fees. Cost against the defendants.

SO ORDERED.<sup>21</sup>

The RTC ruled that the SPA is void, underscoring that it was physically impossible for Juan to have personally signed and acknowledged it before the notary public in 1998 because he already passed away in 1985. It found the execution of the SPA irregular, noting that there was only one community tax certificate indicated therein when it was supposedly executed and signed by both respondent Pilar and Juan. It gave weight to the admission of petitioner's own witness that neither respondent Pilar nor Juan appeared before the notary public.<sup>22</sup> As regards the REM, the RTC ruled that it is void for having been executed on the strength of the void SPA; and the notary public who acknowledged the REM is not a commissioned notary public for and in Valenzuela City.<sup>23</sup>

For the RTC, the foregoing circumstances, taken together, constitute clear and convincing evidence negating the *prima facie* presumption of due execution and genuineness of the questioned SPA and REM.

The RTC further ruled that petitioner is not a mortgagee in good faith because it failed to exercise the diligence expected of it as a banking institution in verifying the due execution of the questioned documents prior to accepting the subject property as collateral for PCCCI's obligations. It also ruled that petitioner failed to conduct a diligent ocular inspection of the subject

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<sup>20</sup> Id. at 117-135.

<sup>21</sup> Id. at 134-135.

<sup>22</sup> Id. at 131.

<sup>23</sup> Id. at 131-132.

property.<sup>24</sup>

Anent the award of damages, the RTC directed PCCCI to pay respondents moral damages on the basis of its fraud and abuse of respondent Pilar's trust which enabled PCCCI to falsify the SPA and use it to mortgage the subject property. In the same vein, it held petitioner solidarily liable with PCCCI.<sup>25</sup> The RTC also awarded attorney's fees in favor of respondents considering that they were compelled to litigate because of petitioner and PCCCI's unjust refusal to return their title.<sup>26</sup>

Aggrieved by the Decision, petitioner elevated the case to the CA through a Notice of Appeal.<sup>27</sup>

#### *The Ruling of the CA*

In the assailed Decision,<sup>28</sup> the CA denied petitioner's appeal and affirmed the RTC Decision with modification, further directing PCCCI and petitioner to pay respondents exemplary damages in the amount of ₱50,000.00.<sup>29</sup>

The CA found no reason to depart from the RTC's findings that petitioner is a mortgagee in bad faith for its representative's failure: (1) to ask searching questions when he conducted an ocular inspection at the subject property, particularly regarding the whereabouts of Juan and respondent Pilar Ramos, the owners of the other houses and the identity of the person he interviewed;<sup>30</sup> (2) to verify the authenticity of the SPA, having simply relied on the representation of PCCCI that it had the authority to deal with the subject property;<sup>31</sup> and (3) to require Juan to sign the REM simply because respondent Pilar already signed it, even though both their names appeared on the REM.<sup>32</sup>

As regards the award of damages, the CA modified the RTC's Decision

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<sup>24</sup> Id. at 131-133.

<sup>25</sup> Id. at 134.

<sup>26</sup> Id.

<sup>27</sup> Id. at 136-137.

<sup>28</sup> Id. at 56-78.

<sup>29</sup> Id. at 77.

<sup>30</sup> Id. at 70-72.

<sup>31</sup> Id. at 73.

<sup>32</sup> Id. at 73-74.

and expressly awarded exemplary damages in favor of respondents. It noted that the RTC actually intended to award exemplary damages and only failed to include such award in its dispositive portion.<sup>33</sup> The CA further declared that petitioner was remiss in its obligation to properly inspect and verify the subject property causing injury to respondents which justifies the award of exemplary damages.<sup>34</sup>

Petitioner filed a Motion for Reconsideration,<sup>35</sup> but the CA denied it in the Resolution dated July 21, 2019.

Undeterred, petitioner filed the present petition raising the following issues:

I.

WHETHER OR NOT THE COURT OF APPEALS ERRED IN HOLDING THAT [PETITIONER] FAILED TO OBSERVE THE REQUIRED DEGREE OF CAUTION IN APPROVING THE LOAN AND COLLATERAL OF [PCCCI;]

II.

WHETHER OR NOT THE COURT OF APPEALS ERRED IN HOLDING PETITIONER SOLIDARILY LIABLE WITH [PCCCI;]

III.

WHETHER OR NOT THE COURT OF APPEALS ERRED IN GRANTING MORAL DAMAGES, EXEMPLARY DAMAGES, ATTORNEY'S FEES AND LITIGATION EXPENSES[.]<sup>36</sup>

Simply put, the issues boil down to whether the CA erred in finding that petitioner is a mortgagee in bad faith.<sup>37</sup>

Petitioner asserts that the CA erred in faulting it for relying on the notarized SPA without verifying whether the persons who executed them were still living. Petitioner maintains that there was nothing in the SPA that would have prompted it to conduct further verification.<sup>38</sup> It further asserts that its inspection of the property reveals nothing that would raise any suspicion on the authority of PCCCI to mortgage it. It invokes that

<sup>33</sup> Id. at 75-76. See also id. at 134.

<sup>34</sup> Id. at 76.

<sup>35</sup> Id. at 189-199.

<sup>36</sup> Id. at 43.

<sup>37</sup> Id. at 46-47.

<sup>38</sup> Id. at 45-46.

the SPA was accepted by the Registry of Deeds<sup>39</sup> and insists that it was respondent Pilar who actively misled it into granting a loan to PCCCI when she signed the SPA and surrendered her title.<sup>40</sup>

In their Comment/Opposition,<sup>41</sup> respondents maintain that petitioner is a mortgagee in bad faith. They point out that petitioner deliberately ignored the necessity of verifying the identity of the owners of the subject property when it failed to ask searching questions regarding their whereabouts at the time it inspected the subject property and when it deemed the signature of respondent Pilar already sufficient for the purpose of executing the REM.<sup>42</sup> For respondents, the CA did not err when it affirmed the RTC Decision holding petitioner liable for damages on account of the latter's bad faith.<sup>43</sup>

#### *The Ruling of the Court*

The petition is unmeritorious.

The general rule is that the issue of whether a mortgagee is in good faith cannot be entertained in a petition for review on *certiorari* under Rule 45 of the Rules of Court because the ascertainment of good faith or the lack thereof and the determination of negligence are factual issues which lie outside its scope.<sup>44</sup> The Court's function in petitions for review on *certiorari* is "limited to reviewing errors of law that may have been committed by the lower courts."<sup>45</sup> Thus, the Court "refrains from further scrutiny of factual findings of trial courts," especially when they are affirmed by the CA; otherwise, the very essence of Rule 45 would be defeated and the Court would turn into a trier of facts, which it is not meant to be.<sup>46</sup> While the rule is not absolute, none of the recognized exceptions<sup>47</sup> that allow the Court

<sup>39</sup> Id. at 46.

<sup>40</sup> Id. at 49.

<sup>41</sup> Id. at 247-254.

<sup>42</sup> Id. at 249-250.

<sup>43</sup> Id. at 250-252.

<sup>44</sup> *Dadis v. Sps. De Guzman*, 810 Phil. 749, 756 (2017), citing *Claudio v. Sps. Saraza*, 767 Phil. 857, 866 (2015).

<sup>45</sup> *Heirs of Teresita Villanueva v. Heirs of Petronila Syquia Mendoza*, 810 Phil. 172, 177-178 (2017).

<sup>46</sup> *Tapuroc v. Loquellano Vda. de Mende*, 541 Phil. 93, 102 (2007), citing *American President Lines, Ltd. v. Court of Appeals*, 391 Phil. 473, 478 (2000).

<sup>47</sup> The general rule for petitions filed under Rule 45 admits exceptions, to wit:

(1) When the conclusion is a finding grounded entirely on speculation, surmises or conjectures; (2) When the inference made is manifestly mistaken, absurd or impossible; (3) Where there is a grave abuse of discretion; (4) When the judgment is based on a misapprehension of facts; (5) When the findings of fact are conflicting; (6) When the Court of Appeals, in making its findings, went

to review factual issues exists in the instant case.

Here, there is no showing that the CA's conclusion is grounded entirely on speculation, conjectures, or that it committed any misapprehension of facts that would require the Court to further review the CA's factual findings. On the contrary, the CA's findings are not only consistent with the findings of the trial court but are also supported by the evidence on record.

At any rate, the Court finds that petitioner is not a mortgagee in good faith for its failure to exercise the diligence expected of it as a banking institution.

In *Cavite Development Bank v. Spouses Lim*,<sup>48</sup> the Court explained the doctrine of mortgagee in good faith; thus:

There is, however, a situation where, despite the fact that the mortgagor is not the owner of the mortgaged property, his title being fraudulent, the mortgage contract and any foreclosure sale arising therefrom are given effect by reason of public policy. This is the doctrine of "mortgagee in good faith" based on the rule that all persons dealing with the 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. The public interest in upholding the indefeasibility of a certificate of title, as evidence of lawful ownership of the land or of any encumbrance thereon, protects a buyer or mortgagee who, in good faith, relied upon what appears on the face of the certificate of title.<sup>49</sup>

*Corollary* to the doctrine of mortgagee in good faith is the observance of the highest degree of diligence expected of banking institutions when dealing with registered lands, as reiterated by the Court in *Land Bank of the Philippines v. Belle Corporation*,<sup>50</sup> viz.:

When the purchaser or the mortgagee is a bank, the rule on

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beyond the issues of the case and the same is contrary to the admissions of both appellant and appellee; (7) The findings of the Court of Appeals are contrary to those of the trial court; (8) When the findings of fact 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 respondents; and (10) The finding of fact of the Court of Appeals is premised on the supposed absence of evidence and is contradicted by the evidence on record. See *Sps. Miano v. Manila Electric Company*, 800 Phil. 118, 123 (2016), citing *Medina v. Mayor Asistio, Jr.*, 269 Phil. 225, 232 (1990).

<sup>48</sup> 381 Phil. 355 (2000).

<sup>49</sup> *Id.* at 368.

<sup>50</sup> 768 Phil. 368 (2015).



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, simply because 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 a bank's operations. It is of judicial notice that the standard practice for banks before approving a loan is to send its representatives to the property offered as collateral to assess its actual condition, verify the genuineness of the title, and investigate who is/are its real owner/s and actual possessors.<sup>51</sup>

In the instant case, the authenticity of the SPA<sup>52</sup> upon which petitioner heavily relies on the supposed authority of PCCCI to deal in the subject property is on its face already questionable. As aptly observed by the RTC, the SPA clearly shows that there is only one community tax certificate presented before the notary public when there should have been two certificates, given that it was supposedly signed and acknowledged by both Juan and respondent Pilar.<sup>53</sup> This should have already prompted petitioner to further inquire into and investigate the authority of PCCCI to mortgage the subject property, as well as the true identities of the registered owners of the subject property.

Further, while petitioner did conduct an ocular inspection of the subject property, its witness readily admitted that such inspection was not conducted thoroughly. Petitioner failed to specifically look for respondent Pilar or verify her whereabouts when it did not find her in the subject property. It simply believed and relied upon the information it received that respondent Pilar was the owner of the subject property.<sup>54</sup> Petitioner also admitted that upon being informed that respondent Pilar owns the subject property, it no longer bothered to look for her husband, Juan. Petitioner's lack of the required diligence is further highlighted by its admission that it no longer required Juan to appear and sign the REM

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<sup>51</sup> Id. at 385-386.

<sup>52</sup> *Rollo*, p. 93.

<sup>53</sup> See id. at 131.

<sup>54</sup> See id. at 70-71.

simply because it found the signature of respondent Pilar alone to be already sufficient, notwithstanding that both the names of Juan and respondent Pilar are clearly indicated on the REM as “MORTGAGOR.”<sup>55</sup> Had petitioner simply taken the extra step of looking into the whereabouts of Juan, it would have discovered that Juan could not have possibly signed the questioned SPA.

The foregoing circumstances are evident signs that petitioner is not a mortgagee in good faith. The existence of these circumstances should have cautioned petitioner from hastily accepting the subject property as collateral for PCCCI’s loan. These should have prompted petitioner to conduct a deeper investigation into the title and authority of PCCCI.<sup>56</sup> Yet, petitioner chose to deliberately ignore these significant facts that would have created suspicion on the part of a reasonable person; thus negating its assertion that it is an innocent mortgagee for value.<sup>57</sup>

Moreover, the Court has repeatedly stressed that “every person dealing with an agent is put upon inquiry, and must discover upon his peril the authority of the agent,” especially when the acts of the agent are unusual in nature. By not making such an inquiry, the person becomes chargeable with knowledge of the agent’s authority and cannot raise his or her ignorance of that authority as an excuse.<sup>58</sup> Here, the questioned REM covers a property owned by Juan and respondent Pilar which was used by PCCCI, purportedly acting as their attorney-in-fact or agent, as collateral to secure its loan obligations to which they are not privies. Under the circumstances, with more reason should petitioner, as mortgagee, have conducted further inquiry as to the purported authority of PCCCI to mortgage the subject property which it does not own, the same being registered in the names of Juan and respondent Pilar.

The foregoing considered, by reason of petitioner’s bad faith, the Court is led to affirm the award of moral damages, exemplary damages, and attorney’s fees in favor of respondents.<sup>59</sup>

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<sup>55</sup> See *id.* at 73.

<sup>56</sup> See *id.* at 133.

<sup>57</sup> See *Philippine National Bank v. Vila*, 792 Phil. 86, 99 (2016), citing *Bank of Commerce v. Spouses San Pablo, Jr.*, 550 Phil. 805, 823 (2007).

<sup>58</sup> *San Pedro v. Ong*, 590 Phil. 781, 798 (2008).

<sup>59</sup> See *rollo*, pp. 75-76.

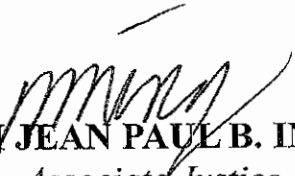
Moral damages are awarded not to penalize petitioner but to compensate respondents for the injuries they suffered.<sup>60</sup> Article 2220 of the Civil Code provides that “[w]illful injury to property may be a legal ground for awarding moral damages if the court should find that, under the circumstances, such damages are justly due.”<sup>61</sup>

The Court also affirms the award of exemplary damages in the case to set an example for the public good.<sup>62</sup>

Finally, the award of attorney’s fees is maintained because respondents were compelled to litigate and protect their right over the subject property consistent with Article 2208 of the Civil Code.<sup>63</sup>

**WHEREFORE**, the Petition for Review on *Certiorari* is **DENIED**. The Decision dated October 31, 2018 and the Resolution dated July 21, 2019 of the Court of Appeals in CA-G.R. CV No. 101625 are hereby **AFFIRMED**.

**SO ORDERED.**

  
**HENRI JEAN PAUL B. INTING**  
*Associate Justice*

<sup>60</sup> *Bank of Commerce v. Spouses San Pablo, Jr.*, 550 Phil. 805, 823 (2007).

<sup>61</sup> See *id.*

<sup>62</sup> The business of a bank is affected with public interest; thus, it makes a sworn profession of diligence and meticulousness in giving irreproachable service. For this reason, the bank should guard against injury attributable to negligence or bad faith on its part. The banking sector must at all times maintain a high level of meticulousness. *The grant of exemplary damages is justified by the initial carelessness of petitioner*, aggravated by its lack of promptness in repairing its error. See *Comsavings Bank v. Sps. Capistrano*, 716 Phil. 547, 564 (2013), citing *Cagungun v. Planters Development Bank*, 510 Phil. 51, 65 (2005).

<sup>63</sup> Article 2208 of the Civil Code provides:

Art. 2208. In the absence of stipulation, attorney’s fees and expenses of litigation, other than judicial costs, cannot be recovered, except:

x x x x

(2) When the defendant’s act or omission has compelled the plaintiff to litigate with third persons or to incur expenses to protect his interest[.]



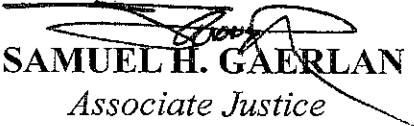
WE CONCUR:

On official leave

**ALFREDO BENJAMIN S. CAGUIOA**

*Associate Justice*

*Chairperson*

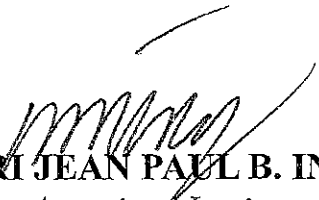
  
**SAMUEL H. GAERLAN**  
*Associate Justice*

  
**JAPAR B. DIMAAMPAO**  
*Associate Justice*

  
**MARIA FILOMENA D. SINGH**  
*Associate Justice*


**ATTESTATION**

I attest 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.

  
**HENRI JEAN PAUL B. INTING**  
*Associate Justice*  
*Acting Chairperson, Third Division*  
(Per S.O. No. 2918-REVISED dated October 12, 2022)

**CERTIFICATION**

Pursuant to Section 13, Article VIII of the Constitution and the Division Acting Chairperson's Attestation, 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.

  
**ALEXANDER G. GESMUNDO**  
*Chief Justice*

