



Republic of the Philippines  
 Supreme Court  
 Manila

SECOND DIVISION

MAMERTA LOPEZ CLAUDIO,  
 EDUARDO L. CLAUDIO,  
 ASUNCION CLAUDIO-CONTEGINO,  
 ANA CLAUDIO-ISULAT,  
 DOLORES CLAUDIO-MABINI,  
 and FERMIN L. CLAUDIO,  
 Petitioners,

G.R. No. 213286

Present:

CARPIO, J., *Chairperson*,  
 DEL CASTILLO,  
 MENDOZA,  
 LEONEN, and  
 JARDELEZA,\* JJ.

- versus -

SPOUSES FEDERICO  
 and NORMA SARAZA ,

Promulgated:

Respondents.

26 AUG 2015

X ----- X

DECISION

MENDOZA, J.:

This is a petition for review on *certiorari* seeking to reverse and set aside the October 24, 2013 Decision<sup>1</sup> and the July 1, 2014 Resolution<sup>2</sup> of the Court of Appeals (CA) in CA-G.R. CV No. 96051, which affirmed in *toto* the January 21, 2011 Order of the Regional Trial Court of Pasay City, Branch 108 (RTC), in Civil Case No. 04-0661-CFM, a case of annulment of sale, power of attorney and mortgage.

*The Facts*

The case traces its roots to Civil Case No. 04-0661-CFM, for annulment of sale, power of attorney and mortgage with prayer for damages filed before the RTC on September 28, 2004 by petitioners Mamerta Lopez Claudio (*Mamerta*), Eduardo L. Claudio, Asuncion Claudio-Contegino

\* Designated Acting Member in lieu of Associate Justice Arturo D. Brion, per Special Order No. 2147, dated August 24, 2015.

<sup>1</sup> Penned by Associate Justice Marlene Gonzales-Sison with Associate Justice Stephen C. Cruz and Associate Justice Edwin D. Sorongon, concurring; *rollo*, pp. 29-41.

<sup>2</sup> *Id.* at 42-43.

(*Asuncion*), Ana Claudio-Isulat, Dolores Claudio-Mabini, and Fermin L. Claudio (*Fermin*) against respondents Florentino Claudio (*Florentino*) and Spouses Federico and Norma Saraza (*Spouses Saraza*).

The complaint alleged that Porfirio Claudio (*Porfirio*) and his wife, Mamerta, during their marriage, acquired ten (10) parcels of land in Pasay City including the property covered by Transfer Certificate of Title (*TCT*) No. 142989; that on June 18, 2004, Florentino made it appear that his parents, Porfirio and Mamerta Claudio, sold to him the lot covered by TCT No. 142989 for ₱500,000.00 thru a deed of absolute sale sometime in October 2003; that the said deed of sale was void because the signatures of the vendors were forged and there was no consideration for the sale; that the signatures of petitioners Fermin and Asuncion appearing in the same deed of sale, expressing their conformity to the conveyance, were likewise forged; and that subsequently, Florentino sought the registration of the said property in his name before the Register of Deeds of Pasay City.

It was further averred in the complaint that on June 22, 2004, Florentino executed a deed of real estate mortgage over the subject lot with special power to sell the mortgaged property without judicial proceedings, in favor of Spouses Saraza to secure the payment of a loan in the aggregate amount of ₱1,000,000.00; that Spouses Saraza were mortgagees in bad faith because they knew fully well that Florentino could not have acquired the subject property from his parents because Porfirio *had long been deceased* on May 31, 1997 while Mamerta was in the United States of America at the time of the alleged sale; that Spouses Saraza did not conduct a credit investigation on Florentino to ascertain the validity of his title and his authority to mortgage the subject lot; that the real estate mortgage was void because it emanated from a falsified deed of absolute sale and void title; that the registration of the real estate mortgage, together with the special power of attorney and deed of conveyances, before the Register of Deeds was procured through fraud; that it was only on June 28, 2004 that TCT No. 142989 was cancelled and, in lieu thereof, TCT No. 145979 was issued in the name of Florentino; and that for failure of mortgagor Florentino to redeem the subject property, it was consolidated in the name of Spouses Saraza.

Spouses Saraza moved for the dismissal of the complaint contending that the issue as to whether or not the petitioners had the legal right to proceed against them could be resolved even without a trial. On May 18, 2005, the RTC issued an order denying the motion to dismiss for lack of merit.

In their answer, Spouses Saraza interposed the defense that the lot now covered by TCT No. 145979, which was used as collateral in the real estate mortgage contract, was valid and that the mortgage was enforceable.

After the presentation of the petitioners' evidence in chief, Spouses Saraza moved for leave of court to file a demurrer to evidence. On December 15, 2009, they filed their *Demurrer to Evidence* praying for the dismissal of the civil case anchored on the ground of insufficiency of evidence.

On January 21, 2010, the RTC issued the assailed order, the dispositive portion of which as quoted by the CA, reads:

**WHEREFORE, the Demurrer to Evidence with Leave filed by defendants Sarazas is hereby GRANTED and the Complaint against them is hereby Dismissed without prejudice.**

**SO ORDERED.**<sup>3</sup>

The petitioners filed a motion for reconsideration of the January 21, 2010 Order, but it was denied by the RTC in its June 4, 2010 Order.<sup>4</sup>

Not in conformity, the petitioners appealed the order of dismissal of Civil Case No. 04-0661-CFM before the CA.

In its assailed decision, dated October 24, 2013, the CA found no cogent reason to disturb the findings and conclusions of the RTC. It held that Spouses Saraza had the right to rely in good faith on TCT No. 145979, which covered the lot given as security by Florentino, considering that there was no showing of any sign to excite suspicion. Thus, they were under no obligation to look beyond what appeared on the face of the certificate of title and investigate it. The appellate court deemed Spouses Saraza as innocent mortgagees for value and as such, the petitioners had shown no right to relief against them. Thus, Spouses Saraza and their mortgage lien were entitled to protection. The *fallo* of its decision states:

**WHEREFORE, the 21 January 2011 Order of the Regional Trial Court of Pasay City, Branch 108 in Civil Case No. 04-0661-CFM is hereby AFFIRMED *in toto*.**

**Cost against appellants.**

**SO ORDERED.**<sup>5</sup>

Unfazed, the petitioners filed the subject petition and presented for the Court's review the following

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<sup>3</sup> Id. at 32.

<sup>4</sup> Id. at 30-32.

<sup>5</sup> Id. at 40.

## ISSUES

### I

**WHETHER OR NOT THE COURT OF APPEALS ERRED IN RULING THAT THE RESPONDENTS ARE MORTGAGEES IN GOOD FAITH BECAUSE WHEN THE MORTGAGE WAS ALLEGEDLY EXECUTED ON AUGUST 11, 2004 THE TITLE HAS BEEN TRANSFERRED TO FLORENTINO CLAUDIO ON JUNE 28, 2004.**

### II

**WHETHER OR NOT THE COURT OF APPEALS ERRED IN FINDING THAT EVEN IF THE REAL ESTATE MORTGAGE WAS ENTERED INTO BETWEEN THE MORTGAGOR AND THE MORTGAGEE ON JUNE 22, 2004, THERE WAS A DEED OF ABSOLUTE SALE WHICH DESCRIBED THE PROPERTY INVOLVED AND WAS EXECUTED ON JUNE 10, 2004 BETWEEN VENDOR PORFIRIO CLAUDIO AND VENDEE FLORENTINO CLAUDIO.**

### III

**WHETHER OR NOT THE COURT OF APPEALS ERRED IN RULING THAT THE RESPONDENTS ARE NO LONGER DUTY BOUND TO LOOK BEYOND THE TRANSFER CERTIFICATE OF TITLE AS THE LAND WAS REGISTERED IN THE NAME OF FLORENTINO CLAUDIO.**

### IV

**WHETHER OR NOT THE COURT OF APPEALS ERRED IN FINDING THAT THE RESPONDENTS ARE MORTGAGEES IN GOOD FAITH BECAUSE THE AGREEMENT WAS REGISTERED IN THE TITLE A FEW DAYS AFTER THE AGREEMENT WAS EXECUTED.<sup>6</sup>**

It is the position of the petitioners that Florentino had no title to the mortgaged property, that he was not its registered owner at the time he entered into a real estate mortgage agreement with Spouses Saraza on June 22, 2004; and that it was only on June 28, 2004 or six (6) days after the execution of the mortgage contract that TCT No. 145979 was issued to Florentino. The petitioners argue that the principle that a mortgagee for value need not look beyond the face of the certificate of title finds no application where the mortgagor is not the registered owner and has no certificate of title at the time of the execution of the mortgage agreement. They contend that the failure of Spouses Saraza to ascertain if there was any flaw in the mortgagor's ownership over the subject property, to examine its status and to determine the mortgagor's right to mortgage the property as collateral of the loan would hardly make them mortgagees in good faith.

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<sup>6</sup> Id. at 12-13.

Spouses Saraza, on the other hand, criticize the present petition as a mere reiteration or rehash of the arguments set forth by the petitioners in their pleadings filed before the RTC and the CA. Other than these issues already judiciously considered and squarely passed upon, the petitioners failed to advance any compelling reason for the modification, much less reversal, of the assailed October 24, 2013 Decision of the CA.<sup>7</sup>

The petitioners, in reply, theorize that Spouses Saraza did not offer any counter-argument in their comment because they failed to grasp the gravity and substance of the issues raised in the subject petition, notably the issue that the CA overlooked and misappreciated material facts which, if properly taken into account would alter the outcome of the case.<sup>8</sup>

### **The Court's Ruling**

The issue before this Court now is whether the RTC erred in granting Spouses Saraza's demurrer to evidence. Corollary to this is the issue of whether or not they were mortgagees in good faith.

The petition is meritorious. The Court finds that Spouses Saraza are not mortgagees in good faith.

Preliminarily, the Court notes that the issue of whether a mortgagee is in good faith generally cannot be entertained in a petition filed under Rule 45 of the Rules of Court. This is because the ascertainment of good faith or the lack thereof, and the determination of negligence are factual matters which lie outside the scope of a petition for review on *certiorari*.<sup>9</sup> A recognized exception to this rule, however, is when there is a misapprehension of facts or when the inference drawn from the facts is manifestly mistaken and, hence, a review of factual issues is allowed.<sup>10</sup> The case at bench falls under the exception.

In *Cavite Development Bank v. Lim*,<sup>11</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 "the mortgagee in good faith" 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. The public interest in upholding the

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<sup>7</sup> Id. at 55.

<sup>8</sup> Id. at 58-60.

<sup>9</sup> *Arguelles v. Malarayat Rural Bank, Inc.*, G.R. No. 200468, March 19, 2014, 719 SCRA 563, 571.

<sup>10</sup> *Alano v. Planter's Development Bank*, 667 Phil. 81, 89 (2011).

<sup>11</sup> 381 Phil. 355 (2000).

indefeasibility of a certificate of title, as evidence of the 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>12</sup>

Verily, a mortgagee has a right to rely in good faith on the certificate of title of the mortgagor and, in the absence of any sign that might arouse suspicion, has no obligation to undertake further investigation. Accordingly, 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 entitled to protection.<sup>13</sup> This doctrine presupposes, however, that the mortgagor, who is not the rightful owner of the property, has already succeeded in obtaining a Torrens title over the property in his name and that, **after obtaining the said title**, he succeeds in mortgaging the property to another who relies on what appears on the said title.<sup>14</sup>

In the assailed decision, the CA stated that as borne by the records, TCT No. 145979 had been issued days before Florentino and Spouses Saraza executed a mortgage agreement on August 11, 2004. It was of the view that Spouses Saraza had the right to rely on the correctness of TCT No. 145979 and, in the absence of any sign that might arouse suspicion, they were no longer required to look beyond the certificate or obligated to undertake further investigation to determine the actual owner or the real property.

The conclusion of the CA is specious as it is baseless and contrary to the evidence on record.

Evidence shows that the real estate mortgage, constituted on the subject property, was executed on June 22, 2004, while TCT No. 145979, in the name of Florentino, was issued by the Register of Deeds only six (6) days later or on June 28, 2004. Evidently, the property, offered as collateral to the loan of ₱1 Million, was not in Florentino's name yet when he entered into a mortgage agreement with Spouses Saraza.

A careful perusal of the special power to sell mortgaged property without judicial proceedings,<sup>15</sup> adduced by the petitioners before the RTC, would readily reveal that the same mortgage contract was actually executed on June 22, 2004. It appears that the date June 22, 2004 was twice superimposed across "11<sup>th</sup> day of August 2004" which immediately preceded the signatures of the parties as well as in the acknowledgment

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<sup>12</sup> Id. at 368.

<sup>13</sup> *Cabuhat v. Court of Appeals*, 418 Phil. 451, 460 (2001).

<sup>14</sup> *Ereña v. Querrer-Kauffman*, 525 Phil. 381, 402 (2006).

<sup>15</sup> *Rollo*, pp. 24-25.

portion of the mortgage contract. The fact that the mortgage contract was executed on June 22, 2004 was clearly shown in the annotation of the mortgage deed at the dorsal portion of TCT No. 145979, herein reproduced for ready reference, to wit:

(MEMORANDUM OF ENCUMBRANCES)<sup>16</sup>

ENTRY NO. 2004-4039/T-145979 – REAL ESTATE MORTGAGE – In favor of SPS. FEDERICO and NORMA J. SARAZA (Mortgagees), covering the property described herein to guarantee the credit facility or principal loan obligation in the amount of ONE MILLION PESOS (₱1,000,000.00), Philippine Currency, upon terms and conditions setforth in Doc. No. 422; Page No. 85; Book No. 33; Series of 2004 acknowledged before Notary Public Jesus B. Bongon for Pasay City.

**Date of Instrument – June 22, 2004.**

**Date of Inscription – June 28, 2004 – 9:50 a.m.**

ROBERT M. GUILLERMO, Registrar of  
Deeds<sup>17</sup> [Emphases supplied]

Further, the Court finds it unusual that Florentino did not indicate the TCT number in the mortgage contract, if indeed, one had already been issued in his favor. The TCT number is essential to identify the title covering the mortgaged land. Notwithstanding the said omission, Spouses Saraza still allowed the loan and entered into a mortgage agreement with Florentino. Considering the substantial loan involved in the agreement, Spouses Saraza should have undertaken the necessary steps to ascertain any flaw in the title of Florentino or to check his capacity to transfer any interest in the mortgaged land. Instead, Spouses Saraza closed their eyes on a fact which should put a reasonable man on guard as to the ownership of the property being presented as security for a loan. A person who deliberately ignores a significant fact that would create suspicion in an otherwise reasonable person is not an innocent purchaser (mortgagee) for value.<sup>18</sup>

The Court also notes that the CA seemed perplexed in the latter part of its *ponencia* as to what date it should declare as the date of execution of the mortgage deed. The CA wrote:

Certainly, defendant Florentino Claudio, as the mortgagor, is the owner of the subject property when it was mortgaged to the appellees. In conformity with good faith and as a matter of regular procedure, *the Real Estate Mortgage was registered and*

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<sup>16</sup> Id. at 44.

<sup>17</sup> Id. at 26.

<sup>18</sup> *Cruz v. Bancom Finance Corporation*, 429 Phil. 225, 241 (2002).

*annotated in the title of the mortgagor a few days after the Real Estate Mortgage Agreement was executed, hence, it is valid and binding against the whole world. x x x.*<sup>19</sup> [Italics supplied]

The foregoing observation of the CA is not only contrary to the evidence on record but also vague as it had previously declared that the mortgage agreement was executed on August 11, 2004. It bears stressing that the annotation of the mortgage contract on the back of TCT No. 145979 was placed on June 28, 2004 which is definitely not “a few days after” August 11, 2004. Indeed, the above finding of the CA created an **absurd scenario** wherein a mortgage contract was first annotated on the title even before its execution by the parties on a much later date. Curiously, Spouses Saraza never questioned or asked for the correction of the entries pertaining to the date of the instrument and the date of annotation considering that they were the ones who caused the mortgage encumbrance to be annotated on TCT No. 145979.

The doctrine of mortgagee in good faith only applies when the mortgagor has already obtained a certificate of title in his or her name at the time of the mortgage.<sup>20</sup> Accordingly, an innocent mortgagee for value is one who entered into a mortgage contract with a mortgagor bearing a certificate of title in his name over the mortgaged property. Such was not the situation of Spouses Saraza. They cannot claim the protection accorded by law to innocent mortgagees for value considering that there was no certificate of title yet in the name of Florentino to rely on when the mortgaged contract was executed.

Good faith connotes an honest intention to abstain from taking unconscientious advantage of another.<sup>21</sup> Spouses Saraza could not be deemed to have acted in good faith because they knew that they were not dealing with the registered owner of the property when it was mortgaged and that the subject land had yet to be titled in the name of mortgagor Florentino. To repeat, the protection accorded to a mortgagee in good faith cannot be extended to a mortgagee who knowingly entered into a mortgage agreement wherein the title to the mortgaged property presented was still in the name of the rightful owner and the mortgagor has no legal authority yet to mortgage the same.

The CA went on to explain that even if the mortgagor had no title to the property at the time of the execution of the mortgage contract, Spouses Saraza would still be considered mortgagees in good faith because a deed of sale had already been executed prior thereto which made mortgagor Florentino the absolute owner of the mortgaged lot, thus;

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<sup>19</sup> *Rollo*, pp. 39-40.

<sup>20</sup> *Heirs of Gregorio Lopez v. Development Bank of the Philippines*, G.R. No. 193551, November 19, 2014.

<sup>21</sup> *Rosencor Development Corporation v. Inquiring*, 406 Phil. 565, 580 (2001).



xxxAnd even if We would follow appellants' arguments that the Real Estate Mortgage was entered into between the mortgagor and the mortgagees on 22 June 2004, there was the Deed of Absolute Sale which described the property involved and was executed on 10 June 2004 between vendor Porfirio Claudio and vendee Florentino Claudio and which was the same property described in the Real Estate Mortgage. Eventually, the Transfer Certificate of Title in the name of Florentino Claudio was issued on 28 June 2004 and the Real Estate Mortgage was duly registered in the office of the Registry of Deeds of Pasay City.<sup>22</sup>

Apparently, the CA wrongly applied the doctrine of mortgagee in good faith. This doctrine has been allowed in many instances but in situations dissimilar from the case at bench. It is based on the rule that persons dealing with properties covered by a Torrens certificate of title are not required to go beyond what appears on the face of the title. It is not applicable, however, to a situation where what the mortgagor presented to the mortgagee was a mere deed of sale. In *Abad v. Guimba*,<sup>23</sup> the Court elucidated:

The main purpose of land registration, covered by PD 1529, is to facilitate transactions relative to real estate by giving the public the right to rely upon the face of the Torrens certificate of title. Therefore, as a rule, the purchaser is not required to explore further than what the Certificate indicates on its face. This rule, however, applies *only to* innocent purchasers for value and in good faith; it excludes a purchaser who has knowledge of a defect in the title of the vendor, or of facts sufficient to induce a reasonably prudent man to inquire into the status of the property. Under Section 32 of PD 1529, an innocent purchaser for value is deemed to include an innocent mortgagee for value.<sup>24</sup>

Besides, the evidence proffered by the petitioners tends to show that the deed of absolute sale was a forgery because the alleged vendor, Porfirio, was **already dead** at the time of the purported sale on June 10, 2004. In the certificate of death<sup>25</sup> submitted by the petitioners, it appears that Porfirio died on May 31, 1997 in Glendora, Los Angeles, U.S.A. It is a well-entrenched rule that a forged or fraudulent deed is a nullity and conveys no title. Moreover, where the deed of sale states that the purchase price has been paid but, in fact, has never been paid, the deed of sale is *void ab initio* for lack of consideration.<sup>26</sup> Consequently, the purported buyer, Florentino, could not have validly mortgaged the subject property. In a real estate mortgage

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<sup>22</sup> Id. at 35.

<sup>23</sup> 503 Phil. 321 (2005).

<sup>24</sup> Id. at 330.

<sup>25</sup> *Rollo*, p. 28.

<sup>26</sup> *Land Bank of the Philippines v. Poblete*, G.R. No. 196577, February 25, 2013, 691 SCRA 613, 623.

contract, it is essential that the mortgagor be the absolute owner of the property to be mortgaged; otherwise, the mortgage is void.<sup>27</sup>

A demurrer to evidence is a motion to dismiss on the ground of insufficiency of evidence and is filed after the plaintiff rests his case. It is an objection by one of the parties in an action to the effect that the evidence, which his adversary produced, is insufficient in point of law, whether true or not, to make out a case or sustain the issue.<sup>28</sup> In the case at bench, the petitioners' evidence, together with such inferences and conclusions as may be reasonably drawn therefrom, amply supports the allegations in their complaint necessary to their claim against Spouses Saraza. The evidence in chief of the petitioner clearly made out a very strong case against them which would warrant recovery from them.

All told, the Court holds that the petitioners' evidence, standing alone and in the absence of controverting evidence, would afford sufficient basis for a judgment in their favor and against Spouses Saraza. Despite the fact that Spouses Saraza are deemed to have waived their right to present evidence before the RTC pursuant to Section 1, Rule 33<sup>29</sup> of the Rules of Court, still this disposition is without prejudice to the judgment on the merits to be handed down by the RTC.

**WHEREFORE**, the petition is **GRANTED**. The October 24, 2013 Decision and the July 1, 2014 Resolution of the Court of Appeals in CA-G.R. CV No. 96051 are **REVERSED** and **SET ASIDE**. Civil Case No. 04-0661-CFM is ordered **REINSTATED** as against Spouses Federico and Norma Saraza.

Let the case be **REMANDED** to the Regional Trial Court, Branch 108, Pasay City, for further proceedings.

**SO ORDERED.**

  
**JOSE CATRAL MENDOZA**  
Associate Justice

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<sup>27</sup> *Adriano v. Pangilinan*, 424 Phil. 578, 587 (2002).

<sup>28</sup> *Condes v. Court of Appeals*, 555 Phil. 311, 323 (2007).

<sup>29</sup> Section 1. Demurrer to Evidence. – After the plaintiff has completed the presentation of his evidence, the defendant may move for dismissal on the ground that upon the facts and the law the plaintiff has shown no right to relief. If his motion is denied, he shall have the right to present evidence. If the motion is granted but on appeal the order of dismissal is reversed he shall be deemed to have waived the right to present evidence.

**WE CONCUR:**




**ANTONIO T. CARPIO**  
Associate Justice  
Chairperson



**MARIANO C. DEL CASTILLO**  
Associate Justice



**MARVIC M.V.F. LEONEN**  
Associate Justice



**FRANCIS HJARDELEZA**  
Associate Justice

**A T T E S T A T I O N**

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.



**ANTONIO T. CARPIO**  
Associate Justice  
Chairperson, Second Division

**CERTIFICATION**

Pursuant to Section 13, Article VIII of the Constitution and the Division 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.



**MARIA LOURDES P. A. SERENO**  
Chief Justice