



REPUBLIC OF THE PHILIPPINES
SUPREME COURT
Manila

SECOND DIVISION

NOTICE

Sirs/Mesdames:

*Please take notice that the Court, Second Division, issued a Resolution dated **03 February 2021** which reads as follows:*

“G.R. No. 224383 (*Philippine National Bank v. Jose Eduardo Untal, Melchor Untal, Rita Mar Untal, Ma. Socorro Untal, and Charito T. Untal*). — Assailed in this Petition for Review on *Certiorari*¹ are the Decision² dated November 25, 2014 and the Resolution³ dated March 17, 2016 of the Court of Appeals (CA),⁴ which affirmed the Decision of the Regional Trial Court (RTC),⁵ ordering the cancellation of Transfer Certificate of Title (TCT) No. 168170 and the issuance of a new title in the name of Philippine National Bank (PNB), Jose Eduardo Untal (Jose Eduardo), and Melchor Untal (Melchor).

Antecedents

At the center of controversy is Lot 21, covered by TCT No. 80353 in the name of Eduardo Untal (Eduardo).⁶ Following Eduardo’s demise, Lot 21 was left to his wife, Charito Untal (Charito), and their four children, Jose Eduardo, Melchor, Rita Mar and Ma. Socorro (the Untals). Later, spouses Jose and Teresita Soriano (Spouses Soriano) sweet-talked Charito to allow them, for a consideration of ₱20,000.00, to use Lot 21 as collateral for a loan, with a promise that they will return the title after three months.⁷ In April 1992, Jose Soriano (Jose), Atty. Francisco Ditching, Jr., and a certain Garrido, caused the preparation of a

¹ *Rollo*, pp. 27-52.

² *Id.* at 9-19; penned by Associate Justice Jhosep Y. Lopez (now a Member of this Court), with the concurrence of Associate Justices Ramon Paul L. Hernando (now a Member of this Court) and Marilyn B. Lagura-Yap.

³ *Id.* at 20-22; penned by Associate Justice Marilyn B. Lagura-Yap, with the concurrence of Associate Justices Gabriel T. Ingles and Germano Francisco D. Legaspi.

⁴ Docketed as CA-G.R. CV No. 02708.

⁵ Docketed as Civil Case No. 95-9004.

⁶ *Rollo*, p. 55.

⁷ *Id.* at 10.

Declaration of Heirship with Waiver of Rights and Interests, whereby Charito and her children declared themselves as the heirs of Eduardo who are entitled to inherit Lot 21. At the same time, the children waived their rights over the lot in favor of Charito.

In August 1992, Spouses Soriano brought Charito to PNB – Binalbagan Branch where they met Alex Sevilleno (Alex). Alex made Charito sign a Special Power of Attorney (SPA), authorizing him and his wife, Fe Sevilleno (Spouses Sevilleno), to mortgage Lot 21 as security for the spouses' loan with PNB. After a year, Charito learned from Alex that PNB foreclosed Lot 21. Charito went to the bank and asked that the land be segregated from the account of Alex, but the bank refused. Thereafter, Lot 21 was sold to PNB, as the highest bidder in the foreclosure sale, and a Certificate of Sale was issued to PNB.

Consequently, Charito and her four children filed a complaint for annulment of certificate of title, certificate of sale, foreclosure of mortgage, SPA, and declaration of heirship and waiver of rights against PNB, Spouses Sevilleno and Jose. For his part, Jose denied applying for a loan with PNB, and prayed that the complaint against him be dismissed since he was not a party to the loan. Meanwhile, Spouses Sevilleno claimed that Charito voluntarily executed the SPA, Charito received ₱131,000.00 as her share in the loan, and that Charito and her children's cause of action is barred by estoppel and laches. Lastly, PNB alleged that Lot 21 was used as a collateral for the spouses Sevilleno's additional loan amounting to ₱131,000.00,⁸ which was approved after the spouses complied with the bank's conditions that the title of the property should be in the name of Charito along with an SPA executed by Charito in favor of the spouses. PNB claimed that it was a mortgagee in good faith. Thus, when the spouses Sevilleno's obligation fell due, it foreclosed their properties, as well as Lot 21. PNB then rightfully acquired ownership of the land after Charito failed to redeem the property. Charito and her children are estopped from asserting ownership over Lot 21 and can no longer question the validity of the Declaration of Heirship and Waiver of Rights and Interests because it remained valid and was published in the newspaper of general circulation.

On October 31, 2007, the RTC rendered its Decision, finding the waiver of rights invalid insofar as Jose Eduardo and Melchor are concerned, in view of their minority at the time of the execution of waiver of rights. Accordingly, the SPA, the foreclosure of mortgage, and the certificate of sale are valid only with respect to the share of Charito, Rita Mar and Ma. Socorro. In this regard, the RTC ordered the issuance of a new TCT in the name of PNB, Jose Eduardo, and Melchor, in the proportion of 3/5:1/5:1/5, respectively.⁹

⁸ The spouses' initial loan was ₱169,000.00; *id.* at 12.

⁹ *Id.*

On appeal, the CA modified the proportional ownership over Lot 21 in that PNB is entitled to an 8/10 portion, while Melchor and Jose Eduardo's share is 1/10 each. The CA affirmed the trial court's finding that the Declaration of Heirship and Waiver of Rights and Interests is valid and binding as to Charito, Ma. Soccoro and Rita Mar. However, the CA pointed out that it was not disputed that the property was the conjugal property of Eduardo and Charito; thus, only one-half of the property passes to Eduardo's intestate heirs, while Charito retains ownership of the other half. The CA rejected PNB's contention that it was a mortgagee in good faith since banks are required to observe a higher standard of diligence and cannot assume that simply because the title offered as security is on its face free of any encumbrances or lien, it is relieved of the responsibility of taking steps to verify the title and inspect the properties to be mortgaged.¹⁰ PNB moved for reconsideration but was denied.¹¹

Hence, this recourse. PNB (now, petitioner) argues that it is a mortgagee in good faith and for value, thus, entitled to the ownership of the entire property. Charito and her children are barred by estoppel to question the validity of waiver of rights on the subject property.¹² On the other hand, respondents maintain that the petitioner is not an ordinary mortgagee who can rely on the face of a certificate of title. A bank is expected to exercise greater care and prudence before entering into a mortgage contract. Failure to do so makes the mortgagee bank in bad faith.¹³

Ruling

The petition is bereft of merit.

To begin with, we point out that this case involves an accommodation mortgage. An accommodation mortgage is a mortgage wherein the mortgagor is not himself the recipient of the loan.¹⁴ An accommodation mortgagor is a third person who is not a debtor to a principal obligation but merely secures it by mortgaging his own property.¹⁵ This is allowed under Article 2085 of the Civil Code, which states that “[t]hird persons who are not parties to the principal obligation may secure the latter by pledging or mortgaging their own property.” Here, the owner of the property mortgaged, the Untals, are not parties to the principal loan obligation granted by PNB to the spouses Sevileno.

The validity of the declaration of heirship and waiver of rights and

¹⁰ *Id.* at 16-17.

¹¹ *Id.* at 22.

¹² *Id.* at 38.

¹³ *Id.* at 102-103.

¹⁴ *Spouses Belo v. Philippine National Bank*, 405 Phil. 851, 870 (2001).

¹⁵ *Spouses Sierra v. PAIC Savings and Mortgage Bank, Inc.*, 742 Phil. 719, 731 (2014); See *Carodan v. China Banking Corporation*, 781 Phil. 750, 761 (2016).

interests and the SPA authorizing the Spouses Sevileno to mortgage Lot 21 can no longer be assailed due to the Untals' failure to appeal from the trial court's declaration with respect to their validity.¹⁶ As to whether Charito was authorized to exercise property rights over Lot 21 in behalf of her children, the waiver of rights, the SPA, the foreclosure proceedings and the subsequent auction sale are valid and legal.¹⁷

Nonetheless, petitioner's standing as a mortgagee in good faith with respect to Jose Eduardo's and Melchor's share in the property remains to be an issue for resolution.

In numerous cases,¹⁸ the Court has consistently held that had the bank been prudent and diligent enough in ascertaining the condition of the property, it could have discovered irregularities that would, at the very least, arouse suspicion for the bank to conduct deeper investigation. Equally in this case, which involves an accommodation mortgage extended by third persons not parties to the principal obligation, the failure of the mortgagee bank to take the necessary steps equate to negligence and would preclude it from invoking that it is a mortgagee in good faith.¹⁹

In this case, petitioner admitted that it conducted an ocular inspection and investigation before accepting Lot 21 as security for the spouses Sevileno's loan, and alleged that it found no irregularities and determined that Charito was the registered owner and actual occupant of the property at the time of the mortgage as evidenced by the Credit Investigator's Report.²⁰ A careful perusal of the report, however, shows that petitioner was made aware that Charito had two minor children. As aptly observed by the CA, "[i]t was glaringly reflected in the Credit Investigator's Report that Charito has children with ages ranging 14-21 at the time of the investigation."²¹ The birth certificates of Jose Eduardo and Melchor established that they were both minors, then being 17 and 14 years old, respectively, at the time the waiver was executed in April 1992.²² Thus, petitioner cannot completely claim being in good faith in dealing with Lot 21. The very evidence of the petitioner, to bolster its assertion that it conducted the necessary due diligence, patently shows that the bank knew of the irregularity and invalidity of the execution of the waiver of rights.

¹⁶ See *Spouses Belo v. Philippine National Bank*, *supra*.

¹⁷ *Id.*

¹⁸ See *Land Bank of the Philippines v. Musni*, 806 Phil. 308 (2017); *Philippine National Bank v. Villa*, 792 Phil. 86 (2016); *Land Bank of the Philippines v. Poblete*, 704 Phil. 610 (2013); *Alano v. Planter's Development Bank*, 667 Phil. 81 (2011); *Rural Bank of Sariaya, Inc. v. Yacon*, 256 Phil. 513 (1989).

¹⁹ *PNB v. Villa*, *supra*.

²⁰ *Rollo*, p. 39.

²¹ *Id.* at 16.

²² *Id.* at 15.

We emphasize that it is the standard practice of banks, before approving a loan, to send representatives to the premises of the property offered as collateral to investigate its real owners.²³ The reason for this is not limited to determining the real owners or the actual possessors of the real property. Rather, this is also to ensure that information as disclosed by a mortgagor is true and correct to protect the true owners of, and innocent third parties with a right or claim to, the property.²⁴

In *PNB v. Corpuz*,²⁵ the Court stressed the need for a mortgagee bank, faced with suspicious layers of transfers involving a property presented for mortgage, to exercise proper diligence in ascertaining the *bona fide* status of those transfers.²⁶ While the bank alleged that it took precautions by conducting a credit investigation, inspecting the property, and verifying the clean status of the title before giving out the loan, its claim of good faith was not sustained. We noted that the three transfers made in less than three months before the mortgage was made should have driven the bank to look at the deeds of sale involved and discovered that the property was sold for ridiculously low prices compared to the bank's appraised value. Anyone who deliberately ignores a significant fact, that would create suspicion in an otherwise reasonable person cannot be considered as an innocent mortgagee for value. Similarly, in this case, petitioner ignored a significant fact – the minority of Jose Eduardo and Melchor – which should have created a suspicion and prompted further investigation.

Delving further into the issue of minority of Jose Eduardo and Melchor and the authority of Charito to bind them, it is a basic tenet in contract law that a minor cannot give consent to a contract.²⁷ Incidentally, a contract entered into in the name of another by one who has no authority or legal representation, or who has acted beyond his powers, shall be unenforceable, unless it is ratified, expressly or impliedly, by the person on whose behalf it has been executed, before it is revoked by the other contracting party.²⁸ Time and again, the Court invalidated contracts entered into by parents in behalf of their minor children. In *Badillo v. Ferrer*,²⁹ the Court ruled that the mother had no authority or has acted beyond her powers in conveying the undivided share of her minor children in the property. The powers given to her by law as a natural guardian cover only matters of administration and cannot include the power of disposition. Permission from the Court should have been secured before any alienation of the minors' property be made. In the

²³ *Land Bank of the Philippines v. Poblete*, *supra* note 18, at 623.

²⁴ *Philippine National Bank v. Villa*, *supra* note 18, at 97-98; *Arguelles v. Malarayat Rural Bank, Inc.*, 730 Phil. 226, 237 (2014).

²⁵ 626 Phil. 410 (2010).

²⁶ *Id.* at 411.

²⁷ CIVIL CODE, ART. 1327, First paragraph.

²⁸ CIVIL CODE, ART. 1317, Second paragraph.

²⁹ 236 Phil. 438 (1987).

more recent cases of *Villanueva-Mijares v. CA*³⁰ and *Neri v. Heirs of Spouses Yusop*,³¹ the Court invalidated the transfer of property made by the parents with respect to the shares of their minor children, and held that, while parents may be the guardians of their minor children, such guardianship does not extend to the property rights of the minor children. Parents then have no power to dispose of the property of their minor children without court authorization. Here, it is undisputed that Charito was not authorized by Jose Eduardo and Melchor to sell their undivided share in Lot 21, considering that the waiver of rights, and the subsequent mortgage, was entered into while they were minors.

Finally, petitioner asserts that Jose Eduardo and Melchor are barred by estoppel from questioning the validity of the waiver of their rights over Lot 21 and in support thereof invokes the cases of *Sia Swan v. Alcantara*³² and *Hermosa v. Zobel*,³³ where the Court held that the minors were estopped from disavowing their agreements. The factual circumstances of those cases are different from the present case. In *Sia Swan*, it was the minor himself who misrepresented that he had full legal capacity at the time of the transaction when he signed the deed of sale as a vendor. The Court held that there was no reason for the vendees to doubt the minor's legal capacity at the time of the transaction. That the minor informed the vendees of his minority one month after the sale is of no moment; at that time, he was already estopped from disavowing the contract. In *Hermosa*, the minor and his aunt, executed a deed of cession and adjudication in favor of the aunt, so that she may continue negotiations with the vendee; thereafter, the minor and his aunt actually petitioned the probate court to approve the deed. The Court, citing *Mercado v. Espiritu*,³⁴ declared the deed executed by the minor as valid considering that the minor was near adult age, and there was deliberate representation of legal capacity. Also, the act of seeking approval of the deed of cession from the probate court was equated to a ratification. In polar opposite are the facts of this case, given that Jose Eduardo and Melchor were not active participants in the transaction involving the accommodation mortgage, and petitioner knew of their minority.

Considering petitioner's knowledge of the minority of Jose Eduardo and Melchor, and thus, their lack of legal capacity to transact, estoppel does not apply. It is elementary that estoppel cannot be sustained in doubtful inference. Absent conclusive proof that its essential elements are present, estoppel must fail.³⁵ For estoppel to apply, the party invoking the estoppel must: (1) lack knowledge or means of knowing the truth as to the facts in question; (2) be in good faith in relying upon the conduct and

³⁰ 386 Phil. 555 (2000).

³¹ 697 Phil. 217 (2012).

³² 85 Phil. 669 (1950).

³³ 104 Phil. 769 (1958).

³⁴ 37 Phil. 215.

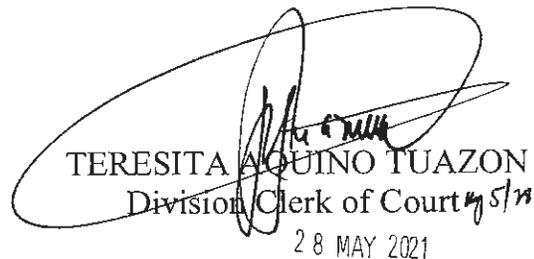
³⁵ *Philippine Savings Bank v. Chowking Food Corp.*, 579 Phil. 589, 600 (2008), citing 28 Am. Jur. 2d, pp. 601-602.

statements of the party to be estopped; and (3) have acted or omitted to act on the knowledge, as to change the position or status of the party claiming the estoppel, to his injury, detriment or prejudice.³⁶ Here, the first two elements are not present. Petitioner conducted an investigation and cited in its report that Charito had minor children at the time of the investigation. Petitioner discovered and had knowledge of the minority of Jose Eduardo and Melchor. This knowledge negates good faith on the part of the petitioner. Thus, Jose Eduardo and Melchor can validly claim for their share in Lot 21.

FOR THE STATED REASONS, the Petition for Review on *Certiorari* is **DENIED**. The Decision dated November 25, 2014 and Resolution dated March 17, 2016 of the Court of Appeals in CA-G.R. CV No. 02708 are hereby **AFFIRMED**.

SO ORDERED.”

By authority of the Court:


 TERESITA AQUINO TUAZON
 Division Clerk of Court *s/n*
 28 MAY 2021

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HON. PRESIDING JUDGE (reg)
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³⁶ *Id.*, citing *Kalalo v. Luz*, 145 Phil. 152, 162 (1970).