



Republic of the Philippines
Supreme Court
Manila

SECOND DIVISION

RURAL BANK OF G.R. No. 178451
CABADBARAN, INC.,

Petitioner,

Present:

- versus -

JORGITA A. MELECIO-YAP,
LILIA MELECIO PACIFICO
(deceased, substituted by her
only child ERL* ISAAC M.
PACIFICO, JR.), REYNALDO
A. MELECIO, ROSIE
MELECIO DELOSO, and
SARAH MELECIO PALMA-
GIL,

Respondents.

CARPIO, J., Chairperson,
BRION,
PEREZ,
MENDOZA,** and
PERLAS-BERNABE, JJ.

Promulgated:

JUL 30 2014 *HM Cabalag Perfecto*

X-----X

DECISION

PERLAS-BERNABE, J.:

Assailed in this petition for review on *certiorari*¹ are the Decision² dated February 28, 2006 and the Resolution³ dated June 12, 2007 rendered by the Court of Appeals (CA) in CA-G.R. CV No. 70933 which (a) set aside the Decision⁴ dated November 27, 2000 of the Regional Trial Court (RTC) of Butuan City, Branch 33, in Civil Case No. 4406; (b) declared the Special Power of Attorney, the Extra-Judicial Adjudication of a Parcel of Land and the Addendum to the Extra-Judicial Adjudication of the Estate of Isaac Melecio and Trinidad Melecio Both Deceased as forgeries, and the extra-judicial foreclosure sale, writ of possession, and all proceedings relative thereto null and void as against respondents; and (c) ordered the remand of

* Spelled as "Earl" in some parts of the records.

** Designated Additional Member in lieu of Justice Mariano C. Del Castillo, per Raffle dated July 23, 2014.

¹ *Rollo*, pp. 10-42.

² Id. at 47-70. Penned by Associate Justice Normandie B. Pizarro, with Associate Justices Edgardo A. Camello and Ricardo R. Rosario, concurring.

³ Id. at 72-73. Penned by Associate Justice Edgardo A. Camello, with Associate Justices Mario V. Lopez and Michael P. Elbinias, concurring.

⁴ Id. at 74-84. Penned by Judge Victor A. Tomaneng.

the case to the court *a quo* for further proceedings.

The Facts

Erna Melecio-Mantala (Erna) and respondents Jorgita A. Melecio-Yap (Jorgita), Lilia Melecio Pacifico (Lilia), Reynaldo A. Melecio, Rosie Melecio-Deloso (Rosie), and Sarah Melecio Palma-Gil (Sarah) are the children of the late spouses Isaac and Trinidad Melecio (Melecio Heirs). They inherited a 3,044 square meter-residential lot located in Tolosa, Cabadbaran, Agusan del Norte, together with the ancestral house and two (2) other structures erected thereon (subject properties). The administration and management of the said properties were left to the care of Erna⁵ who was then residing in their ancestral home.⁶

On August 24, 1990, the Melecio Heirs purportedly executed a notarized Special Power of Attorney (SPA)⁷ authorizing Erna to apply for a loan with petitioner Rural Bank of Cabadbaran, Inc. (RBCI) and mortgage the subject properties. Armed with the said SPA, Erna applied for and was granted a commercial loan by RBCI in the amount of ₱200,000.00 with 27% interest rate per annum, payable within a period of 180 days.⁸ The loan was secured by a Real Estate Mortgage⁹ over the subject properties which was registered with the Registry of Deeds of Agusan del Norte¹⁰ and annotated on Tax Declaration (TD) No. 425-R¹¹ covering the mortgaged lot.

Erna, however, defaulted in the payment of her loan obligation when it fell due, causing RBCI to extra-judicially foreclose the mortgaged properties¹² in accordance with Act No. 3135,¹³ as amended. In the process, RBCI emerged as the highest bidder in the public auction sale held on August 26, 1992 for a total bid price of ₱405,045.65.¹⁴ Since Erna failed to redeem the subject properties within the redemption period despite notice,¹⁵ the latest tax declarations¹⁶ in the names of the Melecio Heirs covering the subject properties were cancelled and new tax declarations in the name of RBCI were issued.¹⁷ Thereafter, RBCI informed Erna of its intent to take

⁵ Id. at 48.

⁶ Transcript of Stenographic Notes (TSN), January 13, 2000, p. 4. (Records, p. 639.)

⁷ Exhibit “1,” folder of exhibits, p. 530.

⁸ See Promissory Note dated August 28, 1990. (Exhibits “2-A” and “2-B,” folder of exhibits, p. 531.)

⁹ Exhibit “25,” folder of exhibits, p. 560.

¹⁰ Exhibit “26,” folder of exhibits, p. 560 (see reverse portion).

¹¹ Exhibit “10-B,” folder of exhibits, p. 539. This tax declaration cancelled TD No. 4554-R (Exhibit “20,” folder of exhibits, p. 551) covering the lot subject of the mortgage (Exhibit “25,” folder of exhibits, p. 560).

¹² *Rollo*, p. 51.

¹³ Entitled “AN ACT TO REGULATE THE SALE OF PROPERTY UNDER SPECIAL POWERS INSERTED IN OR ANNEXED TO REAL ESTATE MORTGAGES.”

¹⁴ See Sheriff’s Certificate of Sale dated August 26, 1992; records, pp. 46-47.

¹⁵ See Letter dated August 3, 1993. (Exhibit “40,” folder of exhibits, p. 576.)

¹⁶ Namely, TD Nos. 463-R (Exhibit “12,” folder of exhibits, p. 541) and 465 (Exhibit “13,” folder of exhibits, p. 542) covering the lot and the improvements, respectively; id. at 541-542.

¹⁷ TD Nos. 905-R (Exhibit “7,” folder of exhibits, p. 536) and 906 (Exhibit “8,” folder of exhibits, p. 537).

physical possession of the subject properties,¹⁸ while the actual occupant thereof, a certain Jimmyrando C. Morales, was directed to pay rentals to RBCI beginning September 1995.¹⁹

In a letter²⁰ dated October 11, 1995, respondents, through counsel, informed RBCI that they were unaware of the loan obtained by Erna and did not authorize the mortgage transaction over the subject properties which they co-owned. They claimed that the SPA submitted by Erna in support of her loan application was spurious, and that their signatures appearing thereon were falsified. As such, they demanded RBCI to release the subject properties from the coverage of Erna's loan obligation to the extent of their shares.

In reply, RBCI maintained the validity of the SPA and its right to rely on it being a notarized document. It likewise claimed that it was impossible for respondents not to have known about the mortgage transaction considering that the publication and notice requirements in foreclosure proceedings were followed and that constant reminders were sent to redeem the subject properties which they failed to heed.²¹

In view of respondents' refusal to vacate the premises, RBCI applied for and was issued a writ of possession dated March 22, 1996 by the RTC of Butuan City, Branch 1 in Special Proceeding No. 899.²² The writ of possession²³ was, thereafter, served and returned duly satisfied and complied with by the Sheriff who turned over the subject properties to RBCI on April 11, 1996.²⁴

Consequently, or on April 17, 1996, respondents filed a complaint²⁵ for declaration of nullity of documents, recovery of possession and ownership, and damages with prayer for the issuance of a writ of preliminary injunction against Spouses Erna and Bonifacio Mantala (Sps. Mantala), RBCI, the Office of the Provincial Sheriff, and Spouses Jimmyrando and Teresita Morales (Sps. Morales) before the RTC of Butuan City, Branch 2, docketed as Civil Case No. 4406. In the said complaint, respondents averred that they learned of the foreclosure of the subject properties only sometime in October 1995²⁶ and, upon investigation, discovered that the said properties were mortgaged by their sister, Erna, bearing ostensible authority under the subject SPA.²⁷ They alleged that they did not participate in the

¹⁸ See Letter dated October 27, 1994. (Exhibit "42," folder of exhibits, p. 578.)

¹⁹ See Letter dated August 21, 1995. (Exhibit "22," folder of exhibits, p. 556.)

²⁰ Exhibit "D," folder of exhibits, p. 15.

²¹ Letter dated October 18, 1995. (Exhibit "E," folder of exhibits, p. 16.)

²² *Rollo*, p. 52.

²³ Exhibit "F," folder of exhibits, p. 17. Issued by Clerk of Court VI Florante G. Domingo.

²⁴ See Sheriff's Return of Service of Writ of Possession (Exhibit "G," folder of exhibits, p. 18) and Sheriff's Turn-Over Receipt (Exhibit "H," folder of exhibits, p. 19).

²⁵ Records, pp. 1-11.

²⁶ *Id.* at 4.

²⁷ *Id.* at 6.

execution of the said SPA and prayed that the same, as well as the mortgage contract, the writ of possession, the sheriff's turn-over receipt, and all derivative titles, documents, issuances, and registrations arising therefrom be declared null and void and that the subject properties be reconveyed back to them.

Extraterritorial service of summons was effected upon Sps. Mantala²⁸ who, at the time of the filing of the aforementioned complaint, were found to be already living in Dubai, United Arab Emirates.²⁹ Despite receipt of the summons and a copy of the complaint, however, they did not file an answer and, thus, were declared in default.³⁰

For their part, the other defendants, *i.e.*, RBCI, Sps. Morales, and the Office of the Provincial Sheriff, maintained the validity of the notarized SPA and the foreclosure proceedings which carry the presumption of regularity that respondents failed to overcome.³¹ Having relied on the SPA, RBCI invoked the defense of a mortgagee in good faith whose subsequent ownership and possession of the subject properties must be respected. Said defendants thereby prayed for the dismissal of the complaint and the payment of damages, attorney's fees, and litigation expenses for having been compelled to litigate against the baseless suit.³² RBCI likewise filed a cross-claim against Sps. Mantala, praying for reimbursement of the expenses incurred in relation to the foreclosure proceedings and the present litigation in the event of a favorable judgment.³³

During the trial, RBCI presented the notarized Extra-Judicial Adjudication of a Parcel of Land and the Addendum to the Extra-Judicial Adjudication of the Estate of Isaac Melecio and Trinidad Melecio Both Deceased (Extra-Judicial Adjudication Documents) allegedly executed by respondents as further documentary bases for its grant of Erna's loan application.³⁴

On rebuttal, respondents denied having executed the Extra-Judicial Adjudication Documents, contending that their signatures therein were likewise falsified, and that they never met in Cabadbaran to execute the same before a notary public. Nonetheless, they admitted to have discovered that the ownership of the subject properties had already been transferred to RBCI in 1993, contrary to their earlier claim that they learned about it only in 1995.³⁵

²⁸ Id. at 83, 85-86.

²⁹ Id. at 56.

³⁰ See Order dated July 18, 1997. (Id. at 98-99.)

³¹ See Answer to Plaintiffs' Complaint with Compulsory Counter-Claim and Cross-Claim dated June 19, 1996. (Id. at 32-40.)

³² Id. at 39-40.

³³ Id. at 35, 38-40.

³⁴ TSN, February 17, 1999, pp. 18, 25 (records, pp. 402, 409). See also Exhibit "43," folder of exhibits, pp. 579-580 and Exhibit "44," folder of exhibits, p. 581.

³⁵ TSN, January 13, 2000, pp. 6-19 (records, pp. 641-654).

Before the RTC's resolution of the case, respondent Lilia died³⁶ and was substituted by her only child, Erll Isaac M. Pacifico.³⁷

The RTC Ruling

On November 27, 2000, the RTC of Butuan City, Branch 33 rendered a Decision³⁸ in favor of RBCI, declaring the real estate mortgage and the consequential foreclosure proceedings to be valid and binding against respondents, notwithstanding the allegation of forgery in the questioned documents. It noted that despite constructive knowledge of the falsification as early as 1993, respondents questioned the foreclosure proceedings only in 1996. It, thus, concluded that they would not have raised the issue on forgeries or falsification had Sps. Mantala paid the loan obligation or redeemed the properties and, consequently, held them guilty of acquiescence and estoppel.³⁹ Accordingly, the RTC declared Sps. Mantala liable to both respondents and RBCI, and adjudged them jointly and solidarily liable to pay: (a) respondents compensatory damages in the amount of ₱1,000,000.00 with 12% interest rate for the loss of the family ancestral house and lot foreclosed by RBCI, as well as moral and exemplary damages in the amounts of ₱250,000.00 and ₱100,000.00, respectively, and attorney's fees and litigation expenses in the sum of ₱70,000.00; (b) RBCI attorney's fees and litigation expenses in the total amount of ₱70,000.00; and (c) the costs of suit.⁴⁰

Dissatisfied, respondents appealed to the CA.

The CA Ruling

In a Decision⁴¹ dated February 28, 2006, the CA reversed the RTC Decision, finding that Erna had no authority to mortgage the subject properties to RBCI since the SPA was actually a forgery, and, hence, null and void.⁴² It held that while a notarized document generally carries the evidentiary weight conferred upon it with respect to its due execution, respondents, nonetheless, were able to rebut by clear, positive and convincing evidence that their signatures on the contested SPA were forged.⁴³ The CA reached the same conclusion with respect to the Extra-Judicial Adjudication Documents, and likewise declared the same invalid.⁴⁴ Moreover, contrary to the findings of the RTC, the CA held that there was no constructive knowledge of the falsification, noting that the respondents were

³⁶ Records, p. 93.

³⁷ Id. at 94.

³⁸ Id. at 719-729.

³⁹ Id. at 728.

⁴⁰ Id. at 728-729.

⁴¹ *Rollo*, pp. 47-70.

⁴² Id. at 61.

⁴³ Id. at 57-61.

⁴⁴ Id. at 57-61, & 68.

not furnished by RBCI with any notice relative to the loan obligation nor impleaded in the foreclosure proceedings and the *ex-parte* petition for writ of possession.⁴⁵ In this relation, the CA pointed out that acquiescence cannot validate or ratify an inexistent or void document nor can estoppel lie against respondents who had no deliberate intent to mislead.⁴⁶

In view of the foregoing, the CA declared the real estate mortgage executed on the strength of the falsified SPA as an invalid encumbrance of respondents' individual shares over the subject properties which cannot be bound by the subsequent foreclosure proceedings conducted. Nevertheless, it held that a valid transaction was executed between RBCI and Erna to the extent of the latter's 1/6 share in the subject properties which portion respondents, as co-owners, may redeem.⁴⁷

Further, the CA ordered a remand of the case (a) to determine the exact extent of the respective rights, interests, shares, and participation of respondents and RBCI over the subject properties, (b) thereafter, to effect a final division, adjudication, and partition in accordance with law, and (c) to re-compute the loan obligation, inclusive of interests, penalties, and other charges due against Sps. Mantala.⁴⁸

Finally, the CA deleted the awards of moral and exemplary damages, attorney's fees, and litigation expenses for lack of factual and legal bases⁴⁹ and ordered Sps. Mantala to pay the costs.⁵⁰

RBCI's motion for reconsideration was denied by the CA in a Resolution⁵¹ dated June 12, 2007, hence, this petition.

The Issues Before the Court

The essential issues for the Court's resolution are whether or not (a) the presumption of regularity accorded to the notarized SPA and Extra-Judicial Adjudication Documents was rebutted by clear and convincing evidence; (b) respondents are guilty of *laches* and, thus, estopped from questioning the validity of the real estate mortgage and subsequent foreclosure proceedings; and (c) RBCI can be considered as a mortgagee in good faith.

⁴⁵ Id. at 63-64.

⁴⁶ Id. at 65-66.

⁴⁷ Id. at 61-62.

⁴⁸ Id. at 69.

⁴⁹ Id. at 67-68.

⁵⁰ Id. at 69.

⁵¹ Id. at 72-73.

The Court's Ruling

The petition is partly granted.

Preliminarily, the rule is settled that the remedy of appeal by *certiorari* under Rule 45 of the Rules of Court contemplates only questions of law, not of fact. The theory of forgery advanced by respondents involves a question of fact. While it is not the function of the Court to undertake a re-examination of the evidence presented by the contending parties during the trial of the case, there are, however, recognized exceptions, among which is when the findings of the trial court and the appellate court are conflicting, as in this case.⁵²

The settled rule is that persons constituting a mortgage must be legally authorized for the purpose.⁵³ In the present case, while Erna appears to be a co-owner of the mortgaged properties, she made it appear that she was duly authorized to sell the entire properties by virtue of the notarized SPA dated August 24, 1990.

Generally, a notarized document carries the evidentiary weight conferred upon it with respect to its due execution, and documents acknowledged before a notary public have in their favor the presumption of regularity which may only be rebutted by clear and convincing evidence.⁵⁴ However, the presumptions that attach to notarized documents can be affirmed only so long as it is beyond dispute that the notarization was regular.⁵⁵ A defective notarization will strip the document of its public character and reduce it to a private document.⁵⁶ Hence, when there is a defect in the notarization of a document, the clear and convincing evidentiary standard normally attached to a duly-notarized document is dispensed with, and the measure to test the validity of such document is preponderance of evidence.⁵⁷

In the present case, RBCI failed to show that the subject SPA which it relied upon as proof of Erna's ostensible authority to mortgage the entirety of the subject properties was regularly notarized. Aside from the respondents who denied having participated in the execution and notarization of the subject SPA, the witnesses to the instrument, *i.e.*, Guendelyn Lopez Salas-

⁵² *China Banking Corp. v. Lagon*, 527 Phil. 143, 151 (2006).

⁵³ Article 2085 of the Civil Code provides:

Article 2085. The following requisites are essential to the contracts of pledge and mortgage:

x x x x

(3) That the persons constituting the pledge or mortgage have the free disposal of their property, and in the absence thereof, that they be legally authorized for the purpose.

x x x x

⁵⁴ *Lazaro v. Agustin*, G.R. No. 152364, April 15, 2010, 618 SCRA 298, 309. See also *Tamani v. Salvador*, G.R. No. 171497, April 4, 2011, 647 SCRA 132, 149.

⁵⁵ *Id.*

⁵⁶ *Meneses v. Venturozo*, G.R. No. 172196, October 19, 2011, 659 SCRA 577, 586.

⁵⁷ *Id.*

Montaus and Carmelita Cayeta Bunga, categorically denied having appeared before Notary Public Alan M. Famador (Atty. Famador) on August 24, 1990 to witness the respondents sign the SPA in the notary public's presence.⁵⁸ Despite this irregularity, RBCI did not present Atty. Famador to refute the same and establish the authenticity of the contested SPA. It may not be amiss to point out that the principal function of a notary public is to authenticate documents. When a notary public certifies to the due execution and delivery of a document under his hand and seal, he gives the document the force of evidence.⁵⁹

Thus, having failed to sufficiently establish the regularity in the execution of the SPA, the presumption of regularity accorded by law to notarized documents can no longer apply and the questioned SPA is to be examined under the parameters of Section 20, Rule 132 of the Rules of Court which provides that "[b]efore any private document offered as authentic is received in evidence, its due execution and authenticity must be proved either (a) [b]y anyone who saw the document executed or written, or (b) [b]y evidence of the genuineness of the signature or handwriting of the maker."

Correspondingly, the burden falls upon RBCI to prove the authenticity and due execution of the subject SPA.⁶⁰ In the case at bar, RBCI merely relied on the presumption of authenticity and due execution accorded to a notarized document, without presenting any other evidence to bolster their case.⁶¹ However, these presumptions had been overcome and effectively negated by respondents' claims of forgery which had been duly substantiated by them through their testimonial and documentary evidence.⁶² Hence, absent any cogent reason to the contrary, the Court hereby sustains the CA's conclusion that respondents were able to prove, by preponderance of evidence, that the subject SPA was a forgery.

To be clear, the above-stated conclusion is only made with respect to the subject SPA and not the Extra-Judicial Adjudication Documents as the latter should be excluded from any forgery analysis since they were not among those documents sought to be nullified by respondents in its complaint. Nevertheless, this observation bears little significance to the resolution of the ultimate issue at hand. This is because the forged status of the subject SPA alone is already enough for the Court to declare the real estate mortgage contract null and void **but only with respect to the shares of the other co-owners (i.e., respondents)** whose consent thereto was not actually procured by Erna. While Erna, as herself a co-owner, by virtue of

⁵⁸ See TSN, September 8, 1998, pp. 18-20 (records, pp. 312-314) and TSN, December 3, 1998, pp. 6-7 (records, pp. 330-331).

⁵⁹ *Lazaro v. Agustin*, supra note 54, at 312.

⁶⁰ *Tigno v. Sps. Aquino*, 486 Phil. 254, 270 (2004).

⁶¹ See CA Decision; *rollo*, p. 60.

⁶² *Id.* at 58-60.

Article 493 of the Civil Code,⁶³ had the right to mortgage or even sell her undivided interest in the said properties, she, could not, however, dispose of or mortgage the subject properties in their entirety without the consent of the other co-owners.⁶⁴ Accordingly, the validity of the subject real estate mortgage and the subsequent foreclosure proceedings therefor conducted in favor of RBCI **should be limited only to the portion which may be allotted to it (as the successor-in-interest of Erna) in the event of partition.** In this relation, the CA's directive to remand the case to the RTC in order to determine the exact extent of the respective rights, interests, shares and participation of respondents and RBCI over the subject properties, and thereafter, effect a final division, adjudication and partition in accordance with law remains in order. Meanwhile, the writ of possession issued in favor of RBCI, and all proceedings relative thereto should be set aside considering that the latter's specific possessory rights to the said properties remain undetermined.

The Court, however, finds no need to conduct a remand of the case for the purpose of re-computing the loan obligation inclusive of interests, penalties and other charges due against Sps. Mantala⁶⁵ for the reason that the said loan is the principal obligation to which the subject real estate mortgage is merely an accessory to. In *Philippine National Bank v. Banatao*,⁶⁶ it was enunciated that:

[A] mortgage is merely an accessory agreement and does not affect the principal contract of loan. The mortgages, while void, [however,] can still be considered as instruments evidencing the indebtedness x x x.⁶⁷

Similarly, in *Flores v. Lindo, Jr.*,⁶⁸ the Court pronounced that:

The liability of x x x on the principal contract of the loan however subsists notwithstanding the illegality of the mortgage. Indeed, where a mortgage is not valid, the principal obligation which it guarantees is not

⁶³ Art. 493. Each co-owner shall have the full ownership of his part of the fruits and benefits pertaining thereto, and he may therefore alienate, assign or mortgage it, and even substitute another person in its enjoyment, except when personal rights are involved. **But the effect of the alienation or the mortgage, with respect to the co-owners, shall be limited to the portion which may be allotted to him in the division upon the termination of the co-ownership.** (Emphasis supplied)

⁶⁴ "We are not unaware of the principle that a co-owner cannot rightfully dispose of a particular portion of a co-owned property prior to partition among all the co-owners. However, this should not signify that the vendee does not acquire anything at all in case a physically segregated area of the co-owned lot is in fact sold to him. **Since the co-owner/vendor's undivided interest could properly be the object of the contract of sale between the parties, what the vendee obtains by virtue of such a sale are the same rights as the vendor had as co-owner, in an ideal share equivalent to the consideration given under their transaction.** In other words, the vendee steps into the shoes of the vendor as co-owner and acquires a proportionate abstract share in the property held in common.

x x x We have ruled many times that even if a co-owner sells the whole property as his, the sale will affect only his own share but not those of the other co-owners who did not consent to the sale. **Since a co-owner is entitled to sell his undivided share, a sale of the entire property by one co-owner will only transfer the rights of said co-owner to the buyer, thereby making the buyer a co-owner of the property.**" (*Spouses Del Campo v. CA*, 403 Phil. 706, 717 [2001]; emphases supplied.)

⁶⁵ See CA Decision; *rollo*, p. 69.

⁶⁶ G.R. No. 149221, April 7, 2009, 584 SCRA 95.

⁶⁷ *Id.* at 108-109.

⁶⁸ G.R. No. 183984, April 13, 2011, 648 SCRA 772.

thereby rendered null and void. That obligation matures and becomes demandable in accordance with the stipulation pertaining to it. Under the foregoing circumstances, what is lost is merely the right to foreclose the mortgage as a special remedy for satisfying or settling the indebtedness which is the principal obligation. In case of nullity, the mortgage deed remains as evidence or proof of a personal obligation of the debtor and the amount due to the creditor may be enforced in an ordinary action.⁶⁹

Based on the foregoing, the partial invalidity of the subject real estate mortgage brought about by the forged status of the subject SPA would not, therefore, result into the partial invalidation of the loan obligation principally entered into by RBCI and Sps. Mantala; thus, absent any cogent reason to hold otherwise, the need for the recomputation of said loan obligation should be dispensed with.

As for RBCI's claim that it should be deemed a mortgagee in good faith for having conducted exhaustive investigations on the history of the mortgagor's title,⁷⁰ the Court finds the same untenable. Two reasons impel this conclusion: first, the doctrine of mortgagee in good faith applies only to lands registered under the Torrens system and not to unregistered lands, as the properties in suit;⁷¹ and second, the principle is inapplicable to banking institutions which are behooved to exercise greater care and prudence before entering into a mortgage contract. Hence, the ascertainment of the status or condition of properties offered as security for loans must be a standard and an indispensable part of its operations.⁷²

In this case, RBCI failed to observe the required level of caution in ascertaining the genuineness of the SPA considering that Erna owns only an aliquot part of the properties offered as security for the loan. It should not have simply relied on the face of the documents submitted since its undertaking to lend a considerable amount of money as a banking institution requires a greater degree of diligence. Hence, its rights as mortgagee and, now, as co-owner, should only be limited to Erna's share to the subject properties and not, absent the other co-owners' consent, to its entirety.

Finally, the Court cannot subscribe to RBCI's contention that respondents are barred by *laches* from laying claim over the subject properties in view of their inexplicable inaction from the time they learned of the falsification. *Laches* is principally a doctrine of equity. It is negligence or omission to assert a right within a reasonable time, warranting a presumption that the party entitled to assert it either has abandoned or declined to assert it.⁷³ In this case, the complaint for nullification of the SPA was filed before the RTC on April 17, 1996, or barely three years from

⁶⁹ Id. at 780.

⁷⁰ *Rollo*, p. 40.

⁷¹ *Philippine National Bank v. CA*, 381 Phil. 720, 732 (2000).

⁷² *Cruz v. Bancom Finance Corp.*, G.R. No. 147788, March 19, 2002, 379 SCRA 490.

⁷³ *Insurance of the Philippine Islands Corporation v. Gregorio*, G.R. No. 174104, February 14, 2011, 642 SCRA 685, 691.

respondents' discovery of the averred forgery in 1993, which is within the four-year prescriptive period provided under Article 1146⁷⁴ of the Civil Code to institute an action upon the injury to their rights over the subject properties. A delay within the prescriptive period is sanctioned by law and is not considered to be a delay that would bar relief. *Laches* applies only in the absence of a statutory prescriptive period.⁷⁵ Furthermore, the doctrine of *laches* cannot be used to defeat justice or perpetrate fraud and injustice. It is the more prudent rule that courts, under the principle of equity, will not be guided or bound strictly by the statute of limitations or the doctrine of *laches* when by doing so, manifest wrong or injustice would result,⁷⁶ as in this case.

Neither is there estoppel. Under Article 1431 of the Civil Code, an essential element of estoppel is that the person invoking it has been influenced and has relied on the representations or conduct of the person sought to be estopped. Said element is, however, wanting in this case.

WHEREFORE, the petition is **PARTLY GRANTED**. The Decision dated February 28, 2006 and the Resolution dated June 12, 2007 of the Court of Appeals in CA-G.R. CV No. 70933 are hereby **AFFIRMED** with **MODIFICATIONS** deleting (a) the declaration of nullity of the Extra-Judicial Adjudication of a Parcel of Land and the Addendum to the Extra-Judicial Adjudication of the Estate of Isaac Melecio and Trinidad Melecio Both Deceased, as well as (b) the order to remand the case for the purpose of re-computing the loan obligation of Spouses Erna Melecio-Mantala and Bonifacio Mantala to Rural Bank of Cabadbaran, Inc. (RBCI).

The Writ of Possession issued in favor of RBCI, and all proceedings relative thereto, are further **SET ASIDE** considering that the latter's specific possessory rights to the said properties remain undetermined.

SO ORDERED.


ESTELA M. PERLAS-BERNABE
Associate Justice

⁷⁴ Article 1146. The following actions must be instituted within four years:

- (1) Upon an injury to the rights of the plaintiff;
- (2) Upon a quasi-delict;

However, when the action arises from or out of any act, activity, or conduct of any public officer involving the exercise of powers or authority arising from Martial Law including the arrest, detention and/or trial of the plaintiff, the same must be brought within one (1) year. (As amended by PD No. 1755, Dec. 24, 1980.)

⁷⁵ *Torbela v. Rosario*, G.R. Nos. 140528 & 140553, December 7, 2011, 661 SCRA 633, 667.

⁷⁶ *Insurance of the Philippine Islands Corporation v. Gregorio*, supra note 73, at 692.

WE CONCUR:**ANTONIO T. CARPIO**

Associate Justice

Chairperson

**ARTURO D. BRION**

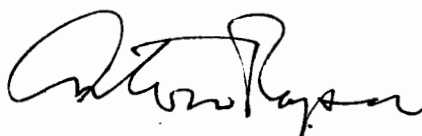
Associate Justice

**JOSE PORTUGAL PEREZ**

Associate Justice


JOSE CATRAL MENDOZA
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.

**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