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SECOND DIVISION

[G.R. No. 180778. October 16, 2009]

RURAL BANK OF DASMARIÑAS, INC., *petitioner, vs.* **NESTOR JARIN, APOLINAR OBISPO, and VICENTE GARCIA in his capacity as Register of Deeds of the Province of Cavite,** *respondents.*

SYLLABUS

LABOR AND SOCIAL LEGISLATION; PRESIDENTIAL DECREE NO. 27; FARM LOTS ACQUIRED THEREUNDER CANNOT BE THE SUBJECT OF FORECLOSURE EXCEPT BY THE LAND BANK; RATIONALE.— Presidential Decree No. 27 provides: Title to land acquired pursuant to this Decree or the Land Reform Program of the Government shall not be transferable **except** by hereditary succession or to the Government in accordance with the provisions of this Decree, the Code of Agrarian Reforms and other existing laws and regulations. Respondents' farm lots subject of the mortgages are thus not subject to foreclosure, except by the Land Bank, because foreclosure contemplates the transfer of ownership over the mortgaged lands. x x x The policy behind the prohibition in Presidential Decree No. 27 precludes expanding the exceptions therein. x x x To insure [the farmer's] continued possession and enjoyment of the property, he *could not*, under the law, make any valid form of transfer **except** to the government or by hereditary succession, to his successors. x x x The prohibition against transfers to persons other than the heirs of other qualified beneficiaries stems from the policy of the Government to **develop generations of farmers to attain its avowed goal to have an adequate and sustained agricultural production.** With certitude, such objective will not see the light of day if lands covered by agrarian reform can easily be converted for non-agricultural purposes.

APPEARANCES OF COUNSEL

Kalaw Sy Selva and Campos for petitioner.
Public Interest Law Center for respondents.

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D E C I S I O N

CARPIO MORALES, *J.*:

Respondents Nestor Jarin (Jarin) and Apolinar Obispo (Obispo) were awarded Certificates of Land Transfer (CLT) over portions of a parcel of land in Burol, Dasmariñas, Cavite which was covered by Transfer Certificate of Title (TCT) No. 2295.

Before respondents could be issued Emancipation Patents (EP), they obtained on December 21, 1988 a loan from petitioner, Rural Bank of Dasmariñas, Inc. (RBDI), in whose favor they executed a Real Estate Mortgage over the parcels of land covered by their CLT (hereafter farm lots). As the farm lots were still covered by TCT No. 2295, the owner thereof, Dr. Paulo Campos (Campos), executed a Special Power of Attorney in respondents' favor authorizing them to encumber the farm lots. Respondents undertook to surrender their EPs as soon as they were released.

On June 18, 1990, respondents obtained additional loans from RBDI, secured by a mortgage over the same farm lots.

Respondents failed to settle their loans, hence, the mortgages were foreclosed and RBDI purchased the farm lots as the highest bidder. As at that time the EPs were still not yet issued, respondents authorized RBDI to receive them.

The EPs were eventually released on November 26, 1997. Campos' Transfer Certificate of Title (TCT) No. 2295 was thereupon cancelled and in its stead, TCT Nos. 994 and 996 were issued by the Office of the Registry of Deeds of Cavite in respondent Jarin's name. It appears that TCT No. 995 was also issued but there is no indication in the Records in whose name it was issued.[1]

On August 20, 1998, RBDI consolidated its ownership over the farm lots but the consolidation of ownership could not be registered as the owners' copies of the TCTs covering them

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[1] Only copies of TCT Nos. 994 and 996, in the name of Jarin, are found in the records (pp. 312-315).

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were with respondents. RBDI thus demanded the delivery to it of the owners' copies but respondents refused to receive RBDI's demand letters, drawing RBDI to file a complaint[2] against them for delivery of the owners' copies of TCT Nos. 994, 995, and 996, and damages, with prayer for the issuance of a writ of injunction and/or temporary restraining order.

In their Answer, respondents claimed that from the proceeds of the original loan, Obispo received ₱266,750 while Jarin received ₱150,000; and that they were later forced to sign additional affidavits requesting additional loans for ₱435,000 in the case of Jarin, and ₱260,000 in the case of Obispo, which amounts were "manufactured" to circumvent Presidential Decree No. 315 allowing financial institutions to accept as collateral for loans duly registered CLTs issued by the government to tenant farmers provided that, among other things, the amount of the loans is not less than 60% of the value of the landholdings as determined under Presidential Decree No. 27.[3]

Respondents furthermore claimed that they were forced to sign affidavits waiving their rights in the farm lots,[4] which affidavits Campos used as bases of the cancellation of their EPs,[5] albeit the cancellation was reversed by Department of Agrarian Reform Secretary Ernesto D. Garilao on their motion for reconsideration.[6]

In sum, respondents answered in the negative the issue of "whether or not a CLT or an EP can be transferred other than through hereditary succession or to the government."[7]

Obispo died during the pendency of the case and was substituted by his spouse.[8]

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[2] *Id.* at 1-11.

[3] Exhibits "16" and "17", *id.* at 400-403.

[4] Exhibits "21"-"22", *id.* at 412-413.

[5] Exhibit "19", *id.* at 406-409.

[6] Exhibit "26", *id.* at 428-430.

[7] *Id.* at 124.

[8] *Id.* at 239-242.

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Branch 22 of the Regional Trial Court (RTC) of Imus, Cavite found that, indeed, mortgaging the farm lots was a scheme conceived by Campos to recover them. It concluded that the farm lots could not be validly foreclosed under Presidential Decree No. 27. Finding, however, that respondents received the proceeds of the loan, the RTC ordered the payment thereof to RBDI. Thus the RTC disposed:

> WHEREFORE, premises considered, judgment is rendered:
>
> 1. Ordering defendant Nestor Jarin to pay plaintiff the amount of ₱150,000.00 representing the amount received, plus interest at the prevailing rural bank[']s rate computed from December 26, 1988 until January 14, 1999;
>
> 2. Ordering the heirs of defendant Apolinar Obispo to pay plaintiff the amount of ₱266,750.00 representing the amount received plus interest at the prevailing rural bank[']s rate computed from December 26, 1988 until January 14, 1999;
>
> 3. Ordering the Register of Deeds for the Province of Cavite to cancel Entry Nos. 4349-96 (Certificate of Sale); 8095-96 (Affidavit); 8096-96 (Affidavit); and 106 (Affidavit of Adverse Claim) in TCT Nos. EP-994 V-B; EP-995 V-B; EP-996 V-B on file with the said register of deeds;
>
> 4. Dismissing the Complaint.
>
> SO ORDERED.[9]

The Court of Appeals affirmed the RTC Decision.[10]

Hence, RBDI's present Petition for Review on *Certiorari*,[11] alleging that the Court of Appeals erred in holding that a) there is no right of foreclosure in its favor; b) it committed fraud; and c) it is not entitled to damages.[12]

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[9] *Id.* at 502-503.

[10] Decision of June 28, 2007, penned by Court of Appeals Associate Justice Japar B. Dimaampao, with the concurrence of Associate Justices Mario L. Guariña III and Sixto C. Marella, Jr., CA *rollo*, pp. 161-174.

[11] *Rollo*, pp. 8-29.

[12] *Id.* at 15.

The petition is bereft of merit.

That fraud was committed against respondents is supported by the evidence on record. As the RTC observed:

> As stated at the outset, the land awarded to defendants pursuant to PD 27 was **formerly owned by Dr. Paulo Campos** who, at the time of the transactions x x x and at the time of the filing of the case, was the **president of the plaintiff.** In addition, the certification dated May 13, 1999 (Exhibit "1") issued by Genoveva Hernandez, accountant of plaintiff, on the shareholdings of Dr. Paulo C. Campos and his family, as well as the testimony of plaintiff's witness Shirley Enobal (TSN, May 13, 1999) will clearly prove that Dr. Campos and his family are the only shareholders of the plaintiff. In other words, **plaintiff is a family corporation.**
>
> Defendants Jarin and Obispo, on the other hand, are both uneducated and have not finished any kind of formal education. They cannot read nor write in English and they have always been, since their early years, farmers or farmworkers.
>
> x x x x x x x x x
>
> The fact alone that the real estate mortgages were executed even before the Special Power of Attorney[13] to mortgage the property was issued and that both were already in existence even when there was no loan application yet, clearly indicates the **premeditated efforts of plaintiff, its officers and Dr. Campos in illegally recovering the subject properties through fraudulent and simulated means**. In addition, a perusal of the real estate mortgage shows that the interest rate was not even stated. More importantly, while the mortgage deeds make reference to promissory notes with regard to the due date of the obligations, no promissory notes were presented in evidence if in fact they were executed. The foregoing acts are not normal banking practices. x x x
>
> In addition, plaintiff's manager, Shirley Enobal, testified on cross-examination that defendants Jarin and Obispo were **assisted by Dr. Campos**. x x x
>
> x x x x x x x x x

[13] The Special Power of Attorney was executed on December 20, 1988 while the mortgages were executed on December 19, 1988. *Vide* Exhibits "8" – "10", *id.* at 390-393.

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It is very surprising, to say the least, that plaintiff's president himself would assist two farmers in obtaining loans when plaintiff surely has sufficient employees assigned to perform such functions. Added to this is the fact that it was plaintiff's manager herself who was principally involved and was instrumental in the documentation of the aforesaid transactions (Exhibits "A" and "4"). These are clear indications on the objective of Dr. Campos to recover the land through plaintiff by means of anomalous and irregular bank processes.

Plaintiff continued these machinations through a supposed Special Power of Attorney dated June 16, 1990 executed by Dr. Campos appointing defendants Jarin and Obispo again as his attorneys-in-fact and authorizing them to secure additional loans with plaintiff and to mortgage the subject properties (Exhibits "E" and "11"). Similarly, plaintiff again simulated Real Estate Mortgages dated June 15, 1990, purportedly executed by defendants Jarin and Obispo mortgaging in favor of plaintiff the subject properties as attorney[s]-in-fact of Dr. Campos for the alleged additional loans (Exhibits "F", "F-1", "12" and "13").

x x x And to strengthen its purpose of defrauding the defendants, plaintiff produced demand letters seeking payment of the principal amounts of the loan (Exhibits "H", "H-1", "14", and "15").

x x x x x x x x x

The fraud persisted when defendants Jarin and Obispo were made to sign spurious "Sinumpaang Salaysay sa Pagbibitiw" prepared by plaintiff dated February 15, 1995 and allegedly acknowledging the 1988 loan with plaintiff, misrepresenting that they allegedly failed to pay the same; and that they allegedly were voluntarily surrendering their right to till the subject property (Exhibits "21" and "22").

The overall scheme and machinations of plaintiff and its officers x x x became very patent when a request was filed by Dr. Campos with the Department of Agrarian Reform (DAR) for the release of the EPs generated in the names of defendants Jarin and Obispo. Based on the Order dated August 7, 1996 (Exhibit "19") issued by the then Secretary of DAR, the said "Sinumpaang Salaysay sa Pagbibitiw" and the Deed of Donation over the subject property executed by Dr. Campos in favor of the Municipality of Dasmariñas, Cavite and the Immaculate Conception Academy, Inc. were submitted with the request. In the said Order, however, the then Secretary of DAR denied the request for the release of the Emancipation Patents of

defendants over the subject properties, cancelled and revoked the same, and directed the reallocation of the properties to "qualified beneficiaries who are capable of making it agricultural".

Under the threat of losing the land awarded to them and after having finally realized that they had been defrauded and taken advantage of, defendants Jarin and Obispo sought help from their relatives who might be able to help them with their problem, which they never understood in the first place until circumstances became clear.

Thus, in a letter dated May 26, 1997 written by defendants Jarin and Obispo as well as their respective heirs addressed to the then Secretary of DAR, the said defendants requested, among others, that the subject properties be returned to them for tilling or that the same be transferred to their respective heirs (Exhibit "23"). This was supplemented in a letter dated August 17, 1997 written by the defendants addressed to the then Secretary of DAR, reiterating their pleas and prayers over the subject properties as contained in their earlier letter dated May 26, 1997 ("Exhibit 25"). This second letter included a Sworn Statement dated July 15, 1997 (Exhibit "25-A") executed by defendants Jarin and Obispo and their respective spouses disowning the "Sinumpaang Salaysay sa Pagbibitiw" dated February 15, 1995 (Exhibits "21" and "22") for lack of voluntariness. On the basis of the foregoing, an Order dated October 8, 1997 was issued by the then Secretary of DAR setting aside the earlier Order dated August 7, 1996 (Exhibit "19") and directing the issuance of Emancipation Patents to defendants Jarin and Obispo (Exhibit "26").

It was likewise brought to the attention of this Court that even prior to the institution of the instant case, plaintiff and its officers unsuccessfully attempted to consolidate their claim and title over the subject property through the filing of a Petition dated April 15, 1997, for an Action to Remove Cloud or Quiet Title to the Real Property and for Preliminary Injunction and Prayer for TRO against the then Secretary of DAR and defendants Jarin and Obispo (Exhibits "24", "24-A" to "24-G").

The foregoing will clearly establish that the transactions subject of this case were attended with fraud and formed part of a grand design to defraud the defendants Jarin and Obispo to enable plaintiff to recover the subject property awarded to said defendants.[14] (Emphasis and underscoring supplied)

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[14] *Id.* at 497-501.

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Respecting RBDI's right to foreclose the mortgages, Presidential Decree No. 27 provides:

> Title to land acquired pursuant to this Decree or the Land Reform Program of the Government shall not be transferable **except** by hereditary succession or to the Government in accordance with the provisions of this Decree, the Code of Agrarian Reforms and other existing laws and regulations. (Emphasis and underscoring supplied)

Respondents' farm lots subject of the mortgages are thus not subject to foreclosure, except by the Land Bank, because foreclosure contemplates the transfer of ownership over the mortgaged lands.[15]

RBDI invokes, however, Section 1 of Presidential Decree No. 315 which amended Presidential Decree No. 27, which reads:

> SECTION 1. All financing institutions shall hereafter accept as collateral for loans any duly registered Land Transfer Certificate issued by the Government, through the Department of Agrarian Reform to tenant-farmers in an amount not less than sixty percent (60%) of the value of the farmholding as determined under Presidential Decree No. 27; Provided, That such loans shall be guaranteed by the Guarantee Fund established by the Samahang Nayon (Barrio Association) in which a tenant-farmer is a full-pledged member; Provided, Further, That the loans obtained shall be used in the improvement or development of the farmholding of the tenant-farmer or the establishment of facilities that will enhance production or marketing of agricultural products or increase farm income therefrom. (Underscoring supplied)

To the RBDI, "[t]he mere fact that the farmer-beneficiary is allowed by the Government to offer his landholdings as collateral to the financial institutions shows the Government's intent to include foreclosure of [*sic*] creditor-banks as one of the modes for transferring titles to land acquired pursuant to PD No. 27."[16] RBDI's position does not impress.

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[15] Hector S. De Leon, *Textbook on Agrarian Reform and Taxation (with Cooperatives)*, 2000 Edition, p. 116.

[16] *Rollo*, p. 17.

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The policy behind the prohibition in Presidential Decree No. 27 precludes expanding the exceptions therein. So this Court declared:

> Upon the promulgation of Presidential Decree No. 27 on October 21, 1972, petitioner was DEEMED OWNER of the land in question. As of that date, he was declared emancipated from the bondage of the soil. As such, he gained the rights to possess, cultivate, and enjoy the landholding for himself. Those rights over that particular property were granted by the government to him and to no other. To insure his continued possession and enjoyment of the property, he *could not*, under the law, make any valid form of transfer **except** to the government or by hereditary succession, to his successors.[17]
>
> x x x The prohibition against transfers to persons other than the heirs of other qualified beneficiaries stems from the policy of the Government to **develop generations of farmers to attain its avowed goal to have an adequate and sustained agricultural production.** With certitude, such objective will not see the light of day if lands covered by agrarian reform can easily be converted for non-agricultural purposes.[18] (Capitalization in the original; italics, emphasis and underscoring supplied)

In light of the foregoing discussion, resolution of the issue of whether RBDI is entitled to damages is rendered unnecessary.

WHEREFORE, the petition is *DENIED*. The Decision of the Court of Appeals dated June 28, 2007 is *AFFIRMED*.

Costs against petitioner.

SO ORDERED.

Quisumbing, Acting C.J. (Chairperson),[*] *Nachura,*[**] *Brion,* and *Abad, JJ.,* concur.

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[17] *Torres v. Ventura*, G.R. No. 686044, July 2, 1990, 187 SCRA 96, 104.

[18] *Estate of the Late Encarnacion Vda. De Panlilio v. Dizon*, G.R. No. 148777, October 18, 2007, 536 SCRA 565, 600-601.

[*] Acting Chief Justice per Special Order No. 721 dated October 5, 2009.

[**] Additional member per Special Order No. 730 dated October 5, 2009.