

Title:

Spouses Lehner and Ludy Martires vs. Menelia Chua

Facts:

The case revolves around 24 memorial lots located at Holy Cross Memorial Park, Quezon City owned by Menelia Chua and her mother under a Deed of Sale and Certificate of Perpetual Care created on June 4, 1992. Menelia Chua borrowed P150,000 from Spouses Lehner and Ludy Martires on December 18, 1995, and secured the loan with a real estate mortgage over the said property, committing to an 8% monthly interest, which would increase by an additional 10% monthly in case of default. Without awaiting foreclosure procedures, ownership of the mortgaged property was transferred to the Martireses through a Deed of Transfer.

Chua filed a complaint at the Regional Trial Court (RTC) of Quezon City on June 23, 1997, seeking to annul the mortgage contract for being unjust and exorbitant and discovered the ownership transfer was facilitated with a forged Deed of Transfer and Affidavit of Warranty. She motioned to amend her complaint to include annulment of these documents, which the Martireses did not oppose. The RTC initially ruled in favor of the Martireses, a decision affirmed with modifications by the Court of Appeals (CA) upon appeal.

Chua's motion for reconsideration led to an Amended Decision by the CA, reversing its earlier decision and declaring the Deed of Transfer void ab initio, recognizing the transaction as an equitable mortgage instead. The CA directed the reinstatement of ownership to Chua, ordering her to pay the original loan amount with a 12% annual interest, deducting prior payments. The Martireses' subsequent motions for reconsideration were denied by the CA.

Issues:

1. Was the Deed of Transfer validly executed and notarized?
2. Should the Deed of Transfer be considered an equitable mortgage?
3. Were the motions for reconsideration properly addressed?

Court's Decision:

The Supreme Court denied the petition by the Martireses, affirming the CA's Amended Decision. It found:

- The motion for review was time-barred as it was filed out of time.
- Despite the regularity norm attached to notarized documents, the Deed of Transfer's

notarization was disputed due to procedural irregularities.

- The agreement between Chua and the Martireses was considered an equitable mortgage rather than an absolute transfer of ownership based on the circumstances and intent behind the transaction.
- The CA is within its jurisdiction to consider unassigned errors if it serves justice and the complete resolution of the case.

Doctrine:

An equitable mortgage is determined not merely by the form or terms of an agreement but by the intention of the parties and the factual circumstances surrounding it. A deed of transfer executed as security for a debt, despite inadequacy of consideration or irregular procedures, may constitute an equitable mortgage.

Class Notes:

- ****Equitable Mortgage****: A transaction intended as security for a loan but disguised under a different form (e.g., a deed of transfer).
- ****Doctrine of Substantial Compliance****: Notarized documents are presumed regular, but this presumption can be rebutted by clear, strong, and convincing evidence of irregularity or fraud.
- ****Pactum Commissorium****: A prohibited practice where the creditor is authorized to automatically acquire ownership of the mortgaged property upon the debtor's failure to fulfill an obligation, without due foreclosure process.
- ****Critical Timeline for Filing Appeals****: The period for filing a petition for review on certiorari is jurisdictional, starting from the receipt of the denial of the first motion for reconsideration. Successive motions do not toll the reglementary period.

Historical Background:

This case underscores the Philippine legal system's approach to ensuring that contractual agreements, particularly concerning property used as loan security, are conducted fairly and without taking advantage of the debtor's economic position. It reiterates the Court's role in interpreting agreements based on the real intention of the parties and protecting the rights of borrowers against unconscionable and predatory practices.