

Title:

Maxima P. Saclolo and Teresita P. Oгатia vs. Romeo Marquito, et al.: A Case of Equitable Mortgage and Prescription Period for Action

Facts:

The dispute arose from a parcel of coconut land co-owned by petitioners Maxima P. Saclolo and Teresita P. Oгатia, inherited from their father. They claimed to have secured loans from the father of the respondents, using their land as collateral, in December 1987, March 2003, and June 2004. In October 2004, petitioners expressed their intention to “redeem” the property but were refused by respondents, who claimed that a sale with the right to repurchase had been conducted in 1984, with them in possession since then. This prompted petitioners to file a Complaint before the RTC, arguing for the redemption of the properties. The RTC identified the transaction as an equitable mortgage but ruled the redemption period had lapsed, a decision upheld by the CA upon appeal, though correcting the applicable prescription period for action.

Issues:

1. Whether the transaction between the parties was a sale with a right to repurchase or an equitable mortgage.
2. Whether the action to redeem the subject property had prescribed.

Court’s Decision:

The Supreme Court held that the transaction was an equitable mortgage, not a sale with right to repurchase. It clarified that the CA and RTC erred in determining the prescription period based on a “redemption” framework applicable to sales with right to repurchase, as equitable mortgages do not involve redemption periods stipulated under Article 1606 of the Civil Code. Instead, the action falls under the general prescription of 10 years for actions upon a written contract. Given that the complaint was filed within this period from when the cause of action accrued (in 2004, when respondents refused the offer to repay the loans), the Supreme Court found the petition meritorious, reversing the decisions of the CA and the RTC and remanding the case for determination of the loan’s outstanding amount and imposition of applicable interest.

Doctrine:

Equitable mortgages are determined based on the intention of the parties and the circumstances surrounding their transaction, irrespective of the contract’s nomenclature. The prescriptive period for actions concerning equitable mortgages follows the general rule

for written contracts under Article 1144 of the Civil Code, providing a 10-year prescription from when the cause of action accrues.

Class Notes:

- Equitable Mortgage: Presumed under certain conditions outlined in Article 1602 of the Civil Code, focusing on the parties' intention rather than the contract's label.
- Prescription: Actions based on written contracts have a 10-year prescriptive period from the cause of action's accrual under Article 1144 of the Civil Code.
- Importance of Intention: The true nature of a transaction (whether an absolute sale or equitable mortgage) hinges on the parties' intentions and the context, not merely on the document's terms or title.

Historical Background:

This case underscores the judiciary's role in discerning the actual nature of property transactions contested as sales with rights to repurchase versus equitable mortgages. It reflects the legal system's nuanced approach to preventing circumvention of usury laws and protecting property owners in financially precarious circumstances from losing ownership without due process, such as foreclosure proceedings.