

**\*\*Title:\*\* Spouses Villaceran and Far East Bank and Trust Company vs. Josephine de Guzman (682 Phil. 426)**

**\*\*Facts:\*\*** The legal battle began when Josephine De Guzman pursued legal action against Spouses Jose and Milagros Villaceran and Far East Bank & Trust Company (FEBTC) by filing a Complaint with the Regional Trial Court (RTC) of Echague, Isabela. The lawsuit aimed for the nullification of sale, reconveyance, redemption of mortgage, and damages, including the annulment of foreclosure and a Sheriff's Certificate of Sale. De Guzman, who owned a parcel of land in Isabela, initially mortgaged her property to secure a loan, later asking the Villacerans to secure a larger loan on her behalf through a simulated sale. Despite fulfilling their part, including paying off De Guzman's original loan, the Villacerans mortgaged the property to FEBTC, failing to inform De Guzman about the loan proceeds, leading to disputes over property ownership and proceeds allocation. Both parties presented conflicting testimonies and evidence regarding their agreement and the transactions that ensued. Following proceedings at the RTC, which ruled partly in favor of De Guzman, the Villacerans appealed to the Court of Appeals (CA), which affirmed the RTC decision with modification. The matter was subsequently escalated to the Supreme Court on grounds of contract simulation and the rightful distribution of loan proceeds.

**\*\*Issues:\*\***

1. Whether the CA erred in ruling that the Deed of Sale dated June 19, 1996, was a simulated contract rather than a genuine sale.
2. Whether the Spouses Villaceran should pay De Guzman the difference between the FEBTC loan and the amount used to redeem the PNB loan, plus legal interest.

**\*\*Court's Decision:\*\***

The Supreme Court upheld the findings of both the RTC and the CA, concluding that the Deed of Sale was indeed a simulated contract. The Court determined that the intention of the parties was not to transfer ownership through the deed but to secure a larger loan for De Guzman, establishing the contract's relative simulation. Consequently, the Court ruled that the Spouses Villaceran are obligated to pay De Guzman the difference between the loan secured from FEBTC and the amount paid to PNB, dismissing the Villacerans' assertion regarding the previous loans extended to De Guzman due to lack of evidence.

**\*\*Doctrine:\*\***

The Supreme Court pointed out the distinction between absolute and relative simulation of contracts as defined under Article 1345 of the Civil Code, emphasizing the determining

factor of the parties' intention behind the contract. Furthermore, the Court reiterated the principle that the authenticity of a deed and the true agreement of the parties are primarily discerned from their actions and subsequent deals rather than the mere text of the contract.

**\*\*Class Notes:\*\***

- **\*\*Simulation of Contracts:\*\*** Distinguish between absolute and relative simulation. Absolute simulation involves a contract with no intention to be bound, hence void. Relative simulation may involve stating a false cause to conceal the real agreement, yet the true agreement binds the parties.
- **\*\*Intention of the Parties:\*\*** The supreme consideration in establishing a contract's nature. The real intent, often discerned from conduct and subsequent acts rather than the contractual text, primarily governs.
- **\*\*Evidence in Loan Transactions:\*\*** The necessity of presenting tangible evidence (e.g., receipts, promissory notes) to substantiate claims of financial transactions between parties.

**\*\*Historical Background:\*\***

This case falls within the context of Philippine jurisprudence concerning property law and the principles governing contracts, particularly the distinction between absolute and relative simulation. The decision underscores the judiciary's role in discerning parties' real intentions in contractual relations and disputes, emphasizing the significance of evidence and conduct over mere stipulations in documents. Furthermore, it highlights the judiciary's meticulous process in examining contracts' nature and the obligations arising from them, ensuring that justice is served based on genuine intentions and fair transactions.