

Title:

Villarica v. Court of Appeals, 135 Phil. 166 (1961)

Facts:

- On **May 19, 1951**, Angel Villarica and Nieves Palma Gil de Villarica sold a 1,174 sq. meter lot in Davao City to Gaudencio Consunji and Juliana Monteverde for **P35,000**.
- The **deed of absolute sale (Exh."B")** was acknowledged before Counselor Juan B. Espolong on **May 25, 1951**, who also acted as Notary Public.
- The spouses Consunji registered the deed in **July 1951**, which led to the issuance of TCT No. 3147 in their names.
- An agreement (Exh."D") was executed on **May 25, 1951**, granting the Villaricas an option to re-buy the property within a year for **P37,750**.
- In **February 1953**, the Consunjis sold the lot to Jovito S. Francisco for **P47,000**, resulting in TCT No. 3147 being canceled and a new one issued in Francisco's name.

Procedural Posture:

- On **April 14, 1953**, the Villaricas filed for reformation of the sale into an equitable mortgage, alleging it was intended as security for a usurious loan of **P28,000**.
- The Defendants asserted the sale represented the true intent and counterclaimed for unpaid borrowed sums.
- The **Court of First Instance of Davao** ruled in favor of the Villaricas, converting the sale to an equitable mortgage but also upheld the Consunjis' counterclaim and dismissed the complaint against Francisco.
- Both parties appealed.
- The **Court of Appeals** reversed the lower court's decision, dismissing the complaint and ordering the Villaricas to pay **P15,000** plus 5% interest.
- The Villaricas petitioned the **Supreme Court** for review on **December 6, 1961**.

Issues:

1. Whether the instrument of absolute sale (Exh. "B") should be deemed an equitable mortgage under Articles 1602 and 1604 of the Civil Code.
2. Whether the price of **P35,000** was significantly inadequate, indicating an equitable mortgage.
3. Whether the Villaricas remained in possession of the property sold.
4. Whether the granting of an option to repurchase (Exh. "D") implied a mortgage.
5. Whether the condition of paying taxes by the vendors supported the claim of an equitable mortgage.

Court's Decision:

1. The Supreme Court upheld the **Court of Appeals** finding that Exh. "B" represented an absolute sale, not an equitable mortgage. The evidence did not support the claim of a disguised loan.
2. **P35,000** was not an inadequate price. Comparing the 1951 market price with later assessments showed the sale price was fair at the time of the transaction.
3. Evidence showed the Consunjis collected rent after **October 1951**, indicating the Villaricas did not remain in possession.
4. The option to buy granted in Exh. "D" was distinct from a right of repurchase specified in Article 1601, thus it did not convert the sale to a pacto de retro.
5. The taxes were back taxes pre-dating the sale and were a condition for selling the property free of encumbrances; thus, this did not evidence an equitable mortgage.

Doctrine:

- **Article 1602, Civil Code:** Presumes a contract as an equitable mortgage when, among other factors, the price is unusually inadequate, the vendor remains in possession, or other signs of a loan agreement exist.
- **Article 1601, Civil Code:** Specifies that conventional redemption requires the right to repurchase to be stipulated in the same instrument of sale.
- The Court essentially reiterated the clear distinction between the rights to repurchase (inherent in the sale contract) and the option to buy (a separate agreement).

Class Notes:

1. **Equitable Mortgage:** A sale is presumed to be a mortgage if certain conditions under Article 1602 are present, including inadequacy of price and the vendor retaining possession.
2. **Option to Buy vs. Right of Repurchase:** Differentiates between an option granted in a separate instrument and a repurchase right that must be included in the sale contract.
3. **Assessment of Fair Price:** Historical value assessments and transactional evidence are crucial in determining the fairness of a sale price at the time of the sale.

Historical Background:

The case occurred during a period when terms of property transactions and their interpretations were becoming complex due to economic conditions and legal reforms in the Philippines. The arguments over whether sales contracts disguised loan agreements were increasingly common. This decision clarifies significant provisions of the Civil Code relevant to property transactions, underscoring the importance of clear documentation and intention in contracts.