

Case Title:

Ong Chua vs. Edward Carr et al., 53 Phil. 975 (1930)

Facts:

1. **Property Background:** The properties involved are Lots Nos. 135, 136, 137, and a house on Lot No. 132 in Zamboanga. Henry E. Teck originally owned Lots Nos. 136 and 137, and the house on Lot No. 132. Lot No. 135 belonged to Teck's wife, Magdalena Lim.
2. **Initial Transactions:** Prior to June 20, 1923, Henry E. Teck and Magdalena Lim sold these properties to Ong Chua. On June 17, 1923, Ong Chua granted Lim the right to repurchase Lot No. 135 for P6,500 within four years. On June 20, 1923, Ong Chua similarly agreed to sell the remaining properties back to Teck for P13,500 within four years. Neither document was recorded with the register of deeds.
3. **Involvement of Edward Carr:** in July 1925, Edward Carr approached Attorney P. J. Moore in Zamboanga, seeking to purchase coconut lands. Moore informed Carr about the properties and facilitated negotiations.
4. **Sale Agreement:** On December 14, 1925, Ong Chua and Carr agreed on a sale price of P20,000 for the properties. The sale was contingent on the rights of Teck and Lim to repurchase, which Carr acknowledged.
5. **Deed Preparation Issue:** Carr did not have the full amount and wanted a loan from the Zamboanga Mutual Building and Loan Association. Moore suggested drafting the deed as an absolute conveyance without the repurchase conditions, thereby briefly holding the documents in escrow until repurchase rights expired.
6. **Fraudulent Registration:** Carr persuaded Moore to give him the deed prematurely by continual harassment during Moore's hospitalization. Carr then registered the deed, ignoring prior agreements.
7. **Repurchase Attempt:** In July 1926, Teck and Lim offered to repurchase the properties, and Ong Chua demanded Carr's compliance, but Carr claimed absolute ownership. Ong Chua discovered the omission of the repurchase rights from the deed. Subsequently, Ong Chua filed an action for deed reformation on July 23, 1926.
8. **Court of First Instance Verdict:** Court of First Instance of Zamboanga ruled in favor of Ong Chua, ordering the reformation of the deed to include the original conditions.

Issues:

1. **Competence of Plaintiff's Testimony:** Was it permissible under Section 383 of the Code of Civil Procedure for the plaintiff to testify regarding transactions occurring before the defendant Carr's death?
2. **Reformation of the Deed:** Whether the facts of the case justified the reformation of the sale deed to reflect the true agreement between the parties, which included the repurchase rights of Teck and Lim.

Court's Decision:

Issue 1: Competence of Plaintiff's Testimony

- The Supreme Court held that plaintiff's testimony was admissible. Several independent witnesses had already established substantial fraud by Carr. Hence, barring Ong Chua's testimony on pre-death facts would suppress the truth, which the procedural rule was not intended to do.

Issue 2: Reformation of the Deed

- The Court affirmed the lower court's reformation of the deed. Evidence confirmed that Carr agreed to hold the deed in escrow, preserving Teck's and Lim's repurchase rights. Carr's subsequent actions in harassing Moore and registering the deed prematurely constituted fraud. The doctrine of reformation applies when one party operates under a mistake and the other party engages in fraud or unfair dealings, justifying the lower court's decision.

Doctrine:

- **Reformation of Contracts:** Courts can order reformation of a written contract to reflect the true intentions of the parties if there's a mistake by one party and fraud or unfair conduct by the other.
- **Escrow Agreements:** Delivery of a deed in escrow without fulfilling the agreed conditions passes no title and can be contested.

Class Notes:

- **Reformation of Contracts:**
- Grounds: Mistake on one side, coupled with fraud on the other (Devlin on Real Estate, par. 1238).

- Code of Civil Procedure, Sec. 383: Aimed to prevent fraudulent testimony but not to shield fraud. Exceptions applied for fraud (Jones on Evidence).
- **Escrow and Property Law:**
- Conditions of Escrow can be demonstrated via parol evidence and are not bound by the statute of frauds.
- Unauthorized delivery of escrow documents vitiates legal effect (Smith vs. South Royalton Bank).

Historical Background:

This case arose in the 1920s under the American colonial period in the Philippines, a time when the legal systems were heavily influenced by U.S. jurisprudence. The principles applied, like escrow and contract reformation, reflect American legal doctrines adapted into Philippine law. The broader context includes the interplay of local customs in property transactions with formal legal processes, highlighting issues in property rights and contract enforcement in a colonial setting.