

FIRST DIVISION

[G.R. No. 248650. March 15, 2023]

ELIZABETH ONG LIM, PETITIONER, VS. LAZARO N. CRUZ, REPRESENTED BY VICENTE T. CRUZ, RESPONDENTS.

DECISION

ZALAMEDA, J.:

The prohibition against transfers, sales, or conveyances of lands awarded through our agrarian reform laws has not completely prevented beneficiaries from entering into contracts that violate the prohibition. Even though such contracts are void *ab initio*, the State's avowed bent to social justice allows the parties relief.

The Case

This is a Petition for Review on *Certiorari*^[1] filed by petitioner Elizabeth Ong Lim (petitioner) assailing the Decision^[2] dated 08 January 2019 and the Resolution^[3] dated 22 July 2019 of the Court of Appeals (CA) in CA-G.R. CV No. 107847. The CA affirmed with modification the Decision^[4] dated 21 January 2016 and the Order^[5] dated 18 July 2016 of Branch 78, Regional Trial Court, Malolos, Bulacan (RTC) in Civil Case No. 258-M-2011.

The RTC denied the prayer of respondent Lazaro N. Cruz (Lazaro), as represented by his son, Vicente T. Cruz (Vicente) (collectively, respondent), to annul the Real Estate Mortgage^[6] dated 26 April 2000 and the Deed of Sale^[7] dated 9 May 2002. It also reduced the interest rate imposed on the real estate mortgage to twelve percent (12%) per *annum*.

In modifying the RTC's disposition, the CA granted respondent's prayer to annul the Deed of Sale for violating Section 27 of Republic Act No. (RA) 6657.^[8] It also ordered petitioner to surrender possession of the land covered by the sale and respondent to return whatever amount of money he received from the sale.

Antecedents

On 21 July 1994, Lazaro was awarded by the Government, through the Department of Agrarian Reform (DAR), two parcels of land in Calumpit, Bulacan. The first parcel has an area of 18,865 square meters and is covered by Transfer Certificate of Title (TCT) No. 9307/Certificate of Land Ownership Awards (CLOA) No. 00243956 (first parcel of land). The second parcel has an area of 11,099 square meters and is covered by TCT No. 9308/CLOA No. 00243955 (second parcel of land).^[9]

Within six years from receiving the award, on 26 April 2000, Lazaro obtained a loan in the amount of P1,500,000.00 from petitioner Elizabeth Ong Lim (petitioner). As security, Lazaro executed a Real Estate Mortgage over the first parcel of land in petitioner's favor. Within eight years from receiving the award, on 09 May 2002, Lazaro executed a Deed of Sale over the second parcel of land in favor of petitioner in the amount of P1,500,000.00. Lazaro gave petitioner the possession of the original copies of the TCTs/CLOAs covering both parcels of land.^[10]

On 12 May 2011, Lazaro, represented by his son Vicente, filed a complaint for annulment of deed of mortgage, deed of absolute sale, and recovery of possession with damages against petitioner before the RTC. The complaint is based on the restrictions on transfer of lands awarded under RA 6657:

[Vicente] now argues that [petitioner] cannot foreclose the mortgage and transfer the ownership of the two lots in his favor because the same is prohibited and the two transactions entered by them are illegal under RA 6657 or the Comprehensive Agrarian Reform Law. It is expressly written on the face of the subject titles that they shall not be sold, transferred, or conveyed except by hereditary succession or to the Government, or to the Land Bank of the Philippines, or to other qualified beneficiaries for a period of ten (10) years.^[11]

Because of the restriction, respondent prayed that the parties be obliged to restore to each other whatever they may have received by virtue of said transactions.^[12]

During trial, Vicente admitted that they 1) were unable to pay the P1,500,000.00 loan and its interests, 2) did not send any demand letter to petitioner before filing the complaint, and 3) did not make any written offer to pay their obligation. Vicente also admitted that they filed the case for and in behalf of their family and not in behalf of the government.^[13]

In her Answer with Compulsory Counterclaim,^[14] petitioner argued that the RTC had no jurisdiction because the subject lands are covered by RA 6657. Additionally, petitioner argued:

x x x (b) that the action is not brought in the name of the real party in interest; (c) that the cause of action of [respondent], which should have been an action for rescission, had already prescribed; (d) that [respondent] has no cause of action and that the complaint states no cause of action; (e) that the action is barred by estoppel; and (g) that [respondent] did not come to court with clean hands.^[15]

To support her position, petitioner further argued that the 10-year period does not apply to the mortgage because it is only a security for the payment of the loan. It also does not apply to the sale because she did not register the sale with the Registry of Deeds within said period.^[16]

Ruling of the RTC

The RTC denied respondent's complaint. It assumed jurisdiction over the case but ruled that respondent had no cause of action.

The absence of a tenurial agrarian relation between the parties that affect the subject parcels of land was the basis for the RTC's assumption of jurisdiction. It pointed out that the jurisdiction of the Department of Agrarian Reform Adjudication Board (DARAB) is limited to cases involving agrarian disputes.

Denial of the complaint is proper because the express prohibition against the transfer of awarded lands in Section 27 of RA 6657 is not a right in favor of Lazaro, but is an obligation imposed upon him as a patent awardee. The RTC characterized respondent's complaint as "using his own violation of the law to profit therefrom."^[17] He is thus estopped from questioning the sale and mortgage. Nonetheless, the RTC reduced the interest enforced by petitioner on the loan extended to Lazaro to one percent (1%) per month or twelve percent (12%) per year.^[18]

The dispositive portion of the RTC's Decision reads:

WHEREFORE, the foregoing considered, JUDGMENT is hereby rendered:

1. DENYING [Lazaro's] prayer for Annulment of the Real Estate Mortgage dated April 26, 2000, and the Deed of Sale dated May 9, 2002;
2. DECLARING the interest rate imposed by [petitioner] on the Real Estate Mortgage dated April 26, 2000 to be excessive and unconscionable.

Accordingly, it is hereby equitably reduced to one percent (1%) per month or twelve percent (12%) per annum.

SO ORDERED. ^[19]

Ruling of the CA

Lazaro filed an appeal before the CA and sought the reversal of the RTC's denial of his complaint. He reiterated his argument that the deed of mortgage and the deed of absolute sale are void. For her part, respondent maintained that the DARAB had jurisdiction over the case. ^[20]

The CA found the appeal partly meritorious. It agreed with the RTC's exercise of jurisdiction because of the absence of tenant-beneficiary relationship between the parties. It agreed with respondent that the Deed of Sale over the second parcel of land is void for violating the prohibition in the TCT/CLOA as well as Section 27 of RA 6657. However, the Real Estate Mortgage over the first parcel of land is valid because it was executed by respondent in favor of petitioner merely as security for his loan. It is not a "sale, transfer, or conveyance" covered by the restriction set within the 10-year period. ^[21]

The dispositive portion of the CA's Decision reads:

FOR THESE REASONS, the instant appeal is hereby **PARTLY GRANTED**. The assailed Decision and Order dated 21 January 2016 and 18 July 2016, respectively, by Branch 78 of the RTC in Malolos, Bulacan in Civil Case No. 258-M-2011 are hereby **AFFIRMED WITH MODIFICATION** that the Deed of Absolute Sale dated 09 May 2002 is declared null and void for violating Section 27 of R.A. No. 6657. **ACCORDINGLY**, [petitioner] is hereby ordered to surrender

to [respondent] the possession of Lot 2-A, Psd-93320 covered by TCT No. 9308/CLOA No. 00243955; and for [respondent] to return to [petitioner] whatever amount of money he may have received by virtue of the said transaction.

The assailed Decision-and Order are affirmed in all other respects.

SO ORDERED.^[22]

On 04 February 2019, petitioner filed a motion for partial reconsideration insofar as the Deed of Absolute Sale was declared void. This motion was denied by the CA in its challenged Resolution dated 22 July 2019. Respondent did not file for reconsideration. Instead, on 13 August 2019, respondent moved for the immediate execution of the CA's 08 January 2019 Decision insofar as the mortgage of the first parcel of land is concerned.^[23]

Issues

In questioning the CA's disposition, petitioner states that her appeal is based on a pure question of law: whether the ruling that the sale is a nullity for alleged violation of Section 27 of RA 6657 is in accord with jurisprudence and the laws^[24].

Respondent, on the other hand, insists that the DARAB's jurisdiction is limited to cases involving agrarian disputes and that a case involving agricultural land does not automatically make such case an agrarian dispute.

Ruling of the Court

The Petition has no merit.

*Jurisdiction of the DARAB
vis-à-vis Jurisdiction of the
RTC*

Section 50 of RA 6657 vests the DAR with "primary jurisdiction to determine and adjudicate agrarian reform matters [as well as] exclusive original jurisdiction over all matters involving the implementation of agrarian reform except those falling under the exclusive jurisdiction of the Department of Agriculture (DA) and the Department of Environment and Natural

Resources (DENR).” Section 13 of Executive Order No. (EO) 129-A places with the DARAB the powers and functions with respect to the adjudication of agrarian reform cases. By necessary implication, if a case is not classified as an agrarian reform matter or as an agrarian dispute, then such case is not under the DARAB’s jurisdiction and is under the jurisdiction of the RTC.^[25]

Agrarian reform means “the redistribution of lands, regardless of crops or fruits produced to farmers and regular farmworkers who are landless, irrespective of tenurial arrangement, to include the totality of factors and support services designed to lift the economic status of the beneficiaries and all other arrangements alternative to the physical redistribution of lands, such as production or profit-sharing, labor administration, and the distribution of shares of stocks, which will allow beneficiaries to receive a just share of the fruits of the lands they work.”^[26]

Agrarian dispute refers to “any controversy relating to tenurial arrangements, whether leasehold, tenancy, stewardship or otherwise, over lands devoted to agriculture, including disputes concerning farmworkers’ associations or representation of persons in negotiating, fixing, maintaining, changing, or seeking to arrange terms or conditions of such tenurial arrangements. It includes any controversy relating to compensation of lands acquired under this Act and other terms and conditions of transfer of ownership from landowners to farmworkers, tenants and other agrarian reform beneficiaries, whether the disputants stand in the proximate relation of farm operator and beneficiary, landowner and tenant, or lessor and lessee.”^[27]

Thus, a case involving agricultural land does not immediately qualify it as an agrarian dispute. The mere fact that the land is agricultural does not *ipso facto* make the possessor an agricultural lessee or tenant. There are conditions or requisites before he can qualify as an agricultural lessee or tenant, and the subject matter being agricultural land simply constitutes one condition. To qualify as an agrarian dispute, there must likewise exist a tenancy relation between the parties.^[28]

To prove tenancy or an agricultural leasehold agreement and determine whether a case fall within DARAB’s jurisdiction, it is normally necessary to establish the following elements: (1) the parties are the landowner and the tenant or agricultural lessee; (2) the subject matter of the relationship is a piece of agricultural land; (3) there is consent between the parties to the relationship; (4) the purpose of the relationship is to bring about agricultural production; (5) there is personal cultivation on the part of the tenant or agricultural lessee;

and (6) the harvest is shared between the landowner and the tenant or agricultural lessee.^[29]

We agree with the CA that only the second element - that the subject matter of the relationship is agricultural land - is present. The relief sought by respondent necessarily involves the adjudication of private rights to the parties which falls within the RTC's jurisdiction and is beyond that of the DARAB.

*Validity and Effect of the
Sale of the Second Parcel
of Land*

The parties repeatedly refer to the 10-year period which prohibits transfer of awarded lands enunciated in Section 27 of RA 6657^[30]:

Sec. 27. Transferability of Awarded Lands. — Lands acquired by beneficiaries under this Act may not be sold, transferred or conveyed except through hereditary succession, or to the government, or to the [Land Bank of the Philippines (LBP)] or to other qualified beneficiaries for a period of ten (10) years: *Provided, however,* That the children or the spouse of the transferor shall have a right to repurchase the land from the government or LBP within a period of two (2) years. x x x

Generally, the sale, transfer, or conveyance of awarded lands are prohibited within ten years from the award. There are only four exceptions when such may be allowed, that is, through hereditary succession, to the government, to the LBP, or to other qualified beneficiaries.

The prohibition against transferring land awards to third persons was already present in 1936's Commonwealth Act No. (CA No.) 141^[31]. The prohibition found in 1988's Section 27 of RA 6657 was carried over from 1972's Presidential Decree No. (PD) 27^[32]. CA No. 141 set a 5-year period, RA 6657 set a 10-year period, while the prohibition set by PD 27 was perpetual. However, with the passage of RA 9700^[33] in 2009, specifically Section 12 thereof, lands awarded under PD 27 are now also subject to a 10-year prohibition on sale, transfer, or conveyance.^[34]

In *Filinvest Land, Inc. v. Adia, et al. (Filinvest)*,^[35] We traced the application of the

prohibition from PD 27 to RA 6657:

The ruling in *Torres* was reiterated in *Corpuz v. Grospe* [G.R. No. 135297, 13 June 2000] and in *Lapanday v. Estita* [G.R. No. 162109, 21 January 2005]. In *Lapanday*, the Court stated that waivers of rights and interests over landholdings awarded by the government are invalid for violating agrarian reform laws. Thus, these waivers are void.

x x x x

The pronouncements in *Torres* were ruled to be applicable to land awards under RA 6657 in *Maylem v. Ellano* [G.R. No. 162721, 13 July 2009], in *Lebrudo v. Loyola* [G.R. No. 181370, 9 March 2011], and in *Gua-an v. Quirino* [G.R. No. 198770, 12 November 2012]. In these cases, the Court emphasized that any waiver and transfer of rights and interests within the 10-year prohibitory period under RA 6657 is void for violating agrarian reform law whose main purpose is to ensure that the farmer-beneficiary shall continuously possess, cultivate, and enjoy the land he tills. The affidavits and quitclaims signed by the farmers to surrender possession were accordingly declared void.^[36]

Torres v. Ventura^[37] (*Torres*) declared void transfers of ownership, rights, or possession over lands acquired pursuant to PD 27 or the government's land reform program.^[38] Contrary to petitioner's assertion, however, and following the ruling in *Torres*, the exception to the principle of *pari delicto* is applicable to lands awarded through agrarian reform.^[39] This exception is provided under Article 1416 of the Civil Code: "When the agreement is not illegal *per se* but is merely prohibited, and the prohibition by the law is designed for the protection of the plaintiff, he may, if public policy is thereby enhanced, recover what he has paid or delivered."

Filinvest further expounds the application of the exception to the principle of *pari delicto*:

In *Torres*, we ruled that the *pari delicto doctrine does not apply in an agrarian reform case*. To hold otherwise would defeat the spirit and intent of the agrarian reform to free the tillers from the bondage of the soil. The policy of the law must be upheld.

To elaborate, Article 1416 of the Civil Code provides an exception to the *pari delicto doctrine*. Under this article, the plaintiff may recover what he paid or delivered pursuant to a void contract if the following requisites are met: (a) the contract is not illegal *per se* but merely prohibited; (b) the prohibition is for the plaintiff's protection; and (c) public policy will be enhanced by his recovery. These requisites are present in this case.

On the first requisite, the affidavits here are merely prohibited. A contract is illegal *per se* if, by universally recognized standards, it is inherently bad, improper, immoral, or contrary to good conscience.

Ordinarily, affidavits or contracts of sale are lawful. Only Section 27 of the CARL made them unlawful.

On the second requisite, the prohibition under Section 27 of the CARL is meant to protect the farmer-beneficiaries. Section 2 of the CARL explains that the agrarian reform program is founded on the landless farmers' right to own land. Thus, their protection must be given utmost importance.

On the third requisite, public policy will be promoted by allowing the respondents to recover their land. The CARL distributes agricultural land to landless farmers to improve their quality of life. Returning the land to them will enhance this public policy of agrarian reform.

Thus, the respondents may recover the subject properties.^[40] (Italics in the original; citations omitted.)

We therefore affirm the CA's ruling that, despite the void sale, respondent may recover the second parcel of land from petitioner. Petitioner is not left without remedy. Respondent is obliged to return the purchase price with legal interest.^[41] We deem it necessary to remand this case to the RTC due to the following: (1) petitioner's claim that the actual purchase price was P1,500,000.00;^[42] (2) the RTC's denial of respondent's prayer for annulment led to a lack of a factual determination of the actual purchase price; and (3) the CA's pronouncement that petitioner return to respondent "whatever amount of money he may have received by virtue of the said transaction."^[43] This Court is not a trier of facts and a remand to the RTC is essential for a factual determination of the aforesaid amount.

WHEREFORE, the instant Petition is **DENIED**. The assailed Decision of the Court of Appeals dated 08 January 2019 and Resolution dated 22 July 2019 in CA-G.R. CV No. 107847 are **AFFIRMED** with the **MODIFICATION** that the case is remanded to Branch 78, Regional Trial Court, Malolos, Bulacan for the determination of the total amount to be returned by respondent Lazaro N. Cruz to petitioner Elizabeth Ong Lim consisting of the actual purchase price with legal interest computed at the rate of six percent (6%) per *annum* computed from the time of the filing of the Complaint on 12 May 2011 until the finality of this judgment, and thereafter, at six percent 6% per *annum* until fully paid.

SO ORDERED.

Gesmundo, C.J. (Chairperson), Hernando, Rosario, and Marquez, JJ., concur.

^[1] *Rollo*, pp. 8-29. Under Rule 45 of the Rules of Court.

^[2] *Rollo*, pp. 30-47; Penned by Associate Justice Elihu A. Ybañez and concurred in by Associate Justices Ma. Luisa Quijano-Padilla and Gabriel T. Robeniol.

^[3] *Id.* at 49-50; Penned by Associate Justice Elihu A. Ybañez and concurred in by Associate Justices Ma. Luisa Quijano-Padilla and Gabriel T. Robeniol.

^[4] *Id.* at 51-57; Penned by Judge Gregorio S. Sampaga.

^[5] *CA rollo*, pp. 53-56; Penned by Judge Gregorio S. Sampaga.

^[6] *Records*, pp. 28-29.

^[7] *Id.* at 30-31.

^[8] Entitled: "AN ACT INSTITUTING A COMPREHENSIVE AGRARIAN REFORM PROGRAM TO PROMOTE SOCIAL JUSTICE AND INDUSTRIALIZATION, PROVIDING THE MECHANISM FOR ITS IMPLEMENTATION, AND FOR OTHER PURPOSES." Approved: 10 June 1988.

^[9] *Rollo*, p. 9.

^[10] *Id.* at 10.

^[11] *Rollo*, p. 52.

^[12] *Id.*

^[13] *Id.*

^[14] Records, pp. 81-86.

^[15] *Rollo*, p. 32.

^[16] *Id.* at 33.

^[17] *Id.* at 56.

^[18] *Id.* at 57.

^[19] *Id.*

^[20] *Id.* at 30-31.

^[21] *Id.* at 39-40.

^[22] *Id.* at 46.

^[23] *Id.* at 49-50.

^[24] *Id.* at 13.

^[25] See Secs. 19 and 23, Batas Pambansa Blg. 129 (1981).

^[26] Section 3(a), RA 6657 (1988).

^[27] Section 3(d), RA 6657 (1988).

^[28] **Bumagat v. Arribay**, 735 Phil. 595, 597 (2014).

^[29] **Islanders Carp-Farmers Beneficiaries Multi-Purpose Cooperative, Inc. v. Lapanday Agricultural & Development Corp.**, 735 Phil. 595, 635 (2014).

^[30] Section 27 of RA 6657 was subsequently amended in 2009 by RA 9700.

^[31] SECTION 118. Except in favor of the Government or any of its branches, units, or institutions, or legally constituted banking corporations, lands acquired under free patent or homestead provisions shall not be subject to encumbrance or alienation from the date of the

approval of the application and for a term of five years from and after the date of issuance of the patent or grant, nor shall they become liable to the satisfaction of any debt contracted prior to the expiration of said period; but the improvements or crops on the land may be mortgaged or pledged to qualified persons, associations, or corporations (*The Public Land Act, Commonwealth Act No. 141, [November 7, 1936]*).

^[32] “x x x Title to land acquired pursuant to this Decree or the Land Reform Program of the Government shall not be transferable except by hereditary succession or to the Government in accordance with the provisions of this Decree, the Code of Agrarian Reforms and other existing laws and regulations x x x.” See **Filinvest Land, Inc. v. Adia**, 773 Phil. 567 (2015).

^[33] Entitled “AN ACT INSTITUTING A COMPREHENSIVE AGRARIAN REFORM PROGRAM TO PROMOTE SOCIAL JUSTICE AND INDUSTRIALIZATION, PROVIDING THE MECHANISM FOR ITS IMPLEMENTATION, AND FOR OTHER PURPOSES.” Approved: 07 August 2009.

^[34] **Heirs of De Lara, Sr. v. Rural Bank of Jaen, Inc., G.R. No. 212012**, 28 March 2022.

^[35] *Supra* note 26.

^[36] *Id.* at 576-577.

^[37] 265 Phil. 99 (1990).

^[38] *Id.* at 107-110.

^[39] *Supra* note 26 at 578-579.

^[40] *Supra* note 26 at 579-580.

^[41] **De Los Santos v. Roman Catholic Church of Midsayap**, 94 Phil. 405, 411-412 (1954); **Tingalan v. Spouses Melliza**, 762 Phil. 114, 127-128 (2015); **Abella v. Heirs of San Juan**, 781 Phil. 533, 550 (2016); **Spouses De Guzman v. Court of Appeals**, 782 Phil. 71, 86 (2016).

^[42] *Rollo*, pp. 10, 53.

^[43] *Id.* at 46.

Date created: October 16, 2023