

**PRUDENCIA GLORIA-DIAZ AND EUGENIO DIAZ, PETITIONERS, VS.
HON. COURT OF APPEALS, FELIX B. MAGALONG AND ISIDRA G.
MAGALONG, RESPONDENTS.***G.R. No. L-48198. July 31, 1978*

Ponente: TEEHANKEE, J.

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The Court sets aside respondent appellate court's resolutions which countermanded its original decision declaring that in the light of the admitted facts of record the transaction between the parties was truly and in reality a simple loan and equitable mortgage regardless of the nomenclature given thereto as a pacto de retro sale. The original decision correctly held that it is not the parties but the law that determines the juridical situation created by the parties through their contract and the rights and obligations arising therefrom.

On May 8, 1972, petitioners-spouses Prudencia Gloria-Diaz and Eugenio Diaz as plaintiffs filed their complaint in the Pangasinan court of first instance praying that respondents-spouses Felix B. Magalong and Isidra G. Magalong as defendants be compelled to accept the tender of payment of P4,500.00 deposited in the court by way of redemption of their 40,000-square meter riceland in Bayambang, Pangasinan, subject of several contracts entitled "Deed of Sale with Conventional Redemption" executed by them with respondents as vendees and to execute the necessary deed reconveying the said property to them.

The trial court in its decision of November 29, 1973 dismissed the complaint on the ground of lapse of the 10-year repurchase period and ruling that if "[respondents] had set certain conditions for the reconveyance of the property to [petitioners] other than those agreed upon, [respondents] were well within their right to do so." [1]

Petitioners appealed to respondent Court of Appeals [2] which restated the facts in its decision of November 3, 1977 as follows:

"x x x Plaintiff, Prudencia Gloria, married to plaintiff Eugenio Diaz, is the aunt of Isidra Gloria-Magalong, wife of defendant, Felix B. Magalong; the parties are from Pangasinan, but the spouses Magalong are U.S. residents, the husband being with the U.S. Army; now, on 27 January, 1958, Prudencia with assistance of her husband, Eugenio, executed Exh. A being a deed entitled one of sale with conventional redemption over 2 parcels of land in Barrio Buayaan, town of Bayambang, Pangasinan in favor of Isidra Gloria, wife of Magalong for the sum of P3,600.00, redeemable within 10 years, then 2 years later, on 21 August, 1961, a new deed of same tenor was signed by spouses Diaz increasing the original consideration of P3,600.00 by P200.00, Exh. B; again, on 1 October, 1964, a new deed once more of the same tenor was executed by spouses Diaz increasing the sum received by P400.00, so that the total became P4,200.00, Exh. C; finally, on 26 June 1965, another sum was added of P300.00, and a new deed once again of the same tenor was signed by Prudencia, Exh. D, so that the total became P4,500.00 - now remember that the period of redemption not having been changed either in Exh. B, C or D, - was to expire by 27 January 1968, and apparently because they did not have money to redeem, spouses Diaz wrote to spouses Magalong in America sometime in December, 1967 asking to renew

and it is here where complications arose. -

"Because according to plaintiffs, spouses Magalong answered in letter of 19 February, 1968 indicating willingness, - Exh. F, which is in handwriting, instructing that new document of same tenor be drafted by Notary Public, Mr. Numeriano de Castro, Magalong's friend, - this despite the fact that 10 year redemption period had already expired, on the other hand, according to defendants, Magalong, they never sent this handwritten letter, Exh. F, what they had sent was the letter, Exh. 6 dated 12 January 1968 (duplicate carbon of that is Exh. 6) wherein they manifested their willingness to accept a new document of the same tenor but upon certain conditions, among them that because of depreciation of value of the peso, that the consideration should be placed at P9,000.00 if the dollar was worth 4 times the peso, further, that draft of new document to be sent unto them for perusal and if they were agreeable, they would send it back for notarization, and that also, before finalization, they should be notified, for them to send a special power of attorney for a relative who spoke English well, -

"And the misunderstanding began with that, - plaintiffs, on the position that they were complying with Exh. F, caused preparation of new deed, Exh. E, on 21 June, 1968, with consideration being only for P4,500.00, and had it ratified before the above-mentioned notary public, Mr. Numeriano G. de Castro, but in turn, defendants refused to accept claiming they were not bound thereby, there was further interchange of communications, until plaintiffs filed present case on 8 May, 1972 and according to her, she deposited the money coincidentally; and in the trial, her position and evidence were to the effect that it became obligation of defendants to execute deed of redemption, - which defendants spouses Magalong resist, on the position and evidence that no, and that the period of redemption having expired, title should be consolidated, x x x." [3]

While respondent appellate court did not give its sanction to the last deed of sale executed unilaterally by petitioners on June 21, 1968 for P4,500.00 with right to repurchase within a period of five (5) years from said date of execution, it held however that in the light of the admitted facts the transaction was in reality an equitable mortgage and therefore set aside the trial court's dismissal of the case.

The appellate court cited petitioners' contention on appeal "that the agreement was only an equitable mortgage, not a sale with right of redemption at all, - and they point to the undisputed fact that the first document of 27 January, 1958, Exh. A, was for P3,600.00, then a second document of exactly the same tenor was executed on 21 August, 1958, or hardly 7 months later, adding a sum that had been later on received as addition to the price of P200.00, making the redemption price, P3,800.00, then four years later, because an additional amount was again received of P400.00, a new document was once more executed, Exh. C, raising the redemption price to P4,200.00, and then a year later, because still another sum of P300.00 had been received, still another document of the same tenor was once more executed, Exh. D, on 26 June, 1965, raising the redemption price to P4,500.00." [4]

The appellate court found that "(I)n the mind of this Court, (the) foregoing facts, admitted on both sides, can not have any other interpretation than that there could have been no legal purpose for the additions of P200.00, P400.00, and P500.00 to increase the redemption price than to erase the nomenclature of the transaction from a deed of sale with conventional redemption, - into the revelation that it was truly and in reality, a simple loan, - surely, if Exh. A was a true deed of sale with pacto de retro, the price was P3,600.00, nothing not even a centavo more, the only right of vendor-a-retro would have been to redeem at that price; if vendee-a-retro himself gave afterwards several additional amounts, and himself consented that they be aggregated to the price of redemption, that was absolutely inconsistent with the designation of the agreement, Exh. A, as a true sale with pacto de retro, a sale with pacto de retro is a true, a good sale, it transfers title to vendee, only subject to a resolutory condition, - the addition of further sums accepted by vendee-a-retro, becomes incomprehensible, - in other words, the net

conclusion must have to be that consistent with their own conduct, especially that of 'vendee-a-retro', the Courts should understand the agreement to have been really only a loan with equitable mortgage, for the parties neither have any legal right to change the juridical qualification that the law attaches to their conduct, it is the law, not their written contract, that does that for them." [5]

The appellate court rejected respondents' defense of estoppel, thus: "(N)ow, of course, defendants contend in this connection, that plaintiffs are in estoppel to raise this question that it was only an equitable mortgage, since plaintiffs themselves have described the transaction as a sale with right of conventional redemption in their complaint, - but the answer to this is not only that as this Court has said, it is not the parties but the law, that determines the juridical situation created by the parties thru their contract, -but not only this, but this Court, reviewing the record, notices that no less than defendants themselves apparently accepted that this had become an issue in the trial, so much so that they presented witness Atty. Felipe Santillan, a practising lawyer and Notary Public in Pangasinan, versed in the Pangasinan dialect, and who confronted with the very letters of defendants Magalong wherein the latter referred to the transaction they had had with plaintiffs as 'prindaan,' – declared x x x? A. 'Well, this word PRINDAAN is a general term in Pangasinan. It may mean a pledge, chattel mortgage, a simple mortgage and it may mean also a deed of sale with conventional redemption.' (tsn. 11:20-21, witness Felipe Santillan). The long and short of it is that as Courts of Justice can not close their eyes to the evidence presented by the parties themselves and foregoing testimony of a witness submitted by defendants no less going to show that they understood that the true meaning of the transaction had to be clarified, that point had become material, therefore the argument of estoppel by them stated in answer to Error 2 cannot persuade, and since with that, this Court becomes not only free but in fact, obligated to rule, and said additional sums by them received having no other meaning than that this was in reality a series of loans." [6]

The appellate court accordingly reversed the lower court's decision and rendered judgment for petitioners allowing their redemption of the property for the stipulated sum of P4,500.00 within 30 days from finality of the decision. [7]

Upon respondents' motion for reconsideration, however, respondent appellate court (with a changed composition with the compulsory retirement on January 1, 1978 of the ponente Acting Presiding Justice Gatmaitan) [8] issued its Resolution of February 3, 1978 setting aside its original decision of November 3, 1977 and instead affirming the lower court's dismissal of petitioners' complaint, on the following ratiocination:

"That on 3 occasions, the purchase price was increased under Exhs. B, C and D may indeed be interpreted as meaning that only a simple loan was intended by the contracting parties, but then:

- a) This is not one of the circumstances listed in Art. 1602 of the Civil Code;
- b) The additional amounts did not result in any extension of the redemption period; and
- c) The payment of the additional amounts did not in any way benefit the vendees and were acts of liberality extended to a close relative by blood.

"It is also important to note that the complaint is anchored on Exh. E (dated June 21, 1968 -- after the expiration of the redemption period) which the Court a quo found to be self-serving as it was the unilateral act of the

appellants. And the complaint is totally silent as to Exhs. A, B, C and D; seeks no reformation; and alleges that the consignment was not in payment of a loan, but in payment of the repurchase price (par. 9). In asking that the motion for reconsideration be denied, the appellants in effect uphold that they are entitled to reformation. This is a remedy not sought by them in the trial court -- and is not a matter even discussed in the briefs.

"Finally, the 10-year redemption period expired on January 27, 1968, but the consignment was made and the complaint was filed only in 1972."

The appellate court in its Resolution of April 14, 1978 denied petitioners' motion for reconsideration in turn and reaffirmed its legal conclusion that the true transaction was a sale with right to repurchase rather than a simple loan as held by the original decision of November 3, 1977.

Hence, the petition at bar, which the Court finds to be well taken for the following principal consideration:

1. The conclusion in the appellate court's countermanding Resolution of February 3, 1978 that the true transaction a pacto de retro sale is contrary to the very admission of respondent Felix B. Magalong in his letter of March 28, 1972 to petitioner Eugenio Diaz wherein said respondent expressly referred to petitioners' proposal "to redeem the land which has been mortgaged to us." [9]

2. The appellate court's countermanding Resolution of February 3, 1978, *supra*, recognized that the undisputed fact that on three occasions the original "purchase price" of P3,600.00 was increased with the "additional payments" of P200.00, P400.00 and P300.00, which added up to a total increased "purchase price" of P4,500.00 indicated that "only a simple loan was intended by the contracting parties." Yet, it rejected this correct indication and conclusion on three manifestly mistaken inferences, as follows:

1st, that "this is not one of the circumstances listed in Article 1602 of the Civil Code", completely disregarding the 6th circumstance or badge of equitable mortgage listed in the article, to wit, "(6) In any other case where it may be fairly inferred that the real intention of the parties is that the transaction shall secure the payment of a debt or the performance of any other obligation";

2nd, "The additional amounts did not result in any extension of the redemption period." Precisely, as stressed in the original decision of November 3, 1977, if the transaction were a true pacto de retro, the purchase price had been fixed at P3,600.00 not a centavo more and respondents' giving of additional amounts on three different occasions to be aggregated to the redemption price "was absolutely inconsistent" with the concept of "a true sale with pacto de retro"; and

3rd, the inference that the additional amounts did not benefit the respondents and were "acts of liberality" is patently mistaken. As already pointed out, such additional amounts merely reveal the nature of the transaction as a series of loans which did not involve any "liberality". As a matter of fact, respondents expressly insisted that they be repaid in dollars at the equivalent increased rate then of P6.40 to the dollar notwithstanding the prohibitory provision to the contrary of Republic Act No. 529.

3. The appellate court's countermanding Resolution of February 3, 1978 furthermore completely disregarded the applicable provisions of Article 1603, Civil Code that "In case of doubt, a contract purporting to be a sale with right to repurchase shall be construed as an equitable mortgage" and of Article 1606, Civil Code, 3rd paragraph that "the vendor may still exercise the right to repurchase within thirty days from the time final judgment was rendered in a civil action on the basis that the contract was a true sale with right to repurchase", which latter provision was aptly applied in the original decision although it did not expressly cite the codal article.

ACCORDINGLY, judgment is hereby rendered setting aside the appellate court's Resolutions of February 3, 1978 and April 14, 1979 and reinstating the original decision and judgment of November 3, 1977. Without costs.

Makasiar, Muñoz Palma, Fernandez, and Guerrero, JJ., concur.

[1] Record on Appeal, pp. 54-55.

[2] Special First Division composed of Gatmaitan, Acting Presiding Justice, ponente, Reyes, S. F. and Climaco, JJ.

[3] Rollo, pages 26-28; emphasis supplied.

[4] Rollo, p. 30; emphasis supplied.

[5] Idem, pp. 30-31; emphasis supplied.

[6] Idem, pp. 31-33; emphasis supplied.

[7] The text of the judgment reads: "IN VIEW WHEREOF, this Court is constrained to reverse as it now reverses, judgment appealed from; plaintiffs are declared debtors in the total sum of P4,500.00 upon payment or deposit in Court thereof, - the fact of consignment not being very clear, - Within a period of 30 days from the date this decision shall become final if it ever will, the land conveyed in Exh. A shall be considered redeemed unto plaintiffs and shall immediately thereafter be surrendered unto them by de-fendants otherwise, to be sold at public auction to satisfy the said sum of P4,500.00 with costs of foreclosure; no more pronouncement as to costs."

[8] Former Special First Division now composed of Agcaoili, Reyes, S.F. and Climaco, ponente, JJ.

[9] Pertinent portion of the letter reads:

"In your letter, you informed me that you are now ready and willing to redeem the land which has been mortgaged to us. Please refer to my letter to your wife dated November 15, 1971. I would ask you to pay particular attention to the first condition I spelled out on page 2 of that letter. This condition is a compromise I offered to your wife. To go directly to the point, I will once more say that if you will pay us P8,467.20 to be converted by you to \$1,323.00 in 'bank draft' form, I will upon receipt of the draft and after I have cashed it, return all the papers of the land to you. This condition is a must and there can be no further compromise as it is in itself a compromise.

"Had the value of the dollar in the Philippines remained at P2.00 to \$1.00, Seding and I would certainly accept without question the amount of P4,500, which you are offering to us. But I regret to say that through no fault of yours or ours, the value of the dollar went up to about P6.40. Therefore, the compromise I spelled out in this letter and in my letter to your wife is just and fair." (Rec. on Appeal, pp. 7-10; emphasis supplied)

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