

**SIMON LACORTE, ROSARIO LACORTE, SEVERINO LACORTE,  
JEROSALINA LACORTE-FERNANDEZ AND CIRILA  
LACORTE-ANGELES, PETITIONERS, VS. THE HONORABLE COURT OF  
APPEALS, SPOUSES PEREGRINO AND...**

*G.R. No. 124574. February 02, 1998*

Ponente: REGALADO, J.

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**REGALADO, J.:**

In this appeal by certiorari, petitioners seek the reversal of the judgment promulgated by public respondent Court of Appeals on August 9, 1995[1] which dismissed the basic complaint for rescission and/or annulment of document filed by the former against herein private respondents. What is noteworthy and distressing is the fact that the parties are siblings, the subject matter is a comparatively small parcel of land, the case had to be instituted by and eventually brought to this Court with the assistance of agencies of the Department of Justice,[2] and it is now on its tenth year of litigation.

Petitioners and private respondent Peregrino Lacorte are the heirs of Maria Inocencio Lacorte who was the original owner of a parcel of land located at Sta. Cruz, Lezo, Aklan with an area of 14,556 square meters, more or less. The subject property was foreclosed by the Rural Bank of Malinao, Aklan, Inc. which, after consolidating its ownership thereover, subsequently sold the same to herein private respondent Jose Icaca.

On October 17, 1983, respondent Jose Icaca and petitioner Simon Lacorte, in behalf of the heirs of Maria Lacorte, entered into an Agreement whereby the former was authorized to purchase the subject property from the bank provided that the heirs of Maria Lacorte shall be given the right to repurchase the same in the amount of P33,090.00 within a period of one year from that date. The one-year redemption period was later extended to March, 1987 pursuant to another Agreement dated October 16, 1984. Both agreements were signed by petitioner Simon Lacorte for himself and in representation of the heirs of Maria Lacorte. On November 4, 1984, respondent Peregrino Lacorte's wife, Adela, paid to respondent Icaca the amount of P26,000.00 as deposit for the repurchase of the property.

It appears, however, that without the knowledge and consent of herein petitioners, and before the expiration of the grace period, private respondents Peregrino Lacorte and his wife were able to purchase the land in their names by virtue of a Deed of Reconveyance executed by respondent Icaca dated February 3, 1987.

That prompted herein petitioners to commence this action on December 9, 1988 for annulment of the contract on the ground that the same was entered into in evident bad faith and in violation of the previous agreements between the parties, thereby resulting in prejudice to the property rights of herein petitioners. In their Answer, respondents Peregrino and Adela Lacorte denied that there was an agreement to sell the property collectively to the heirs of Maria Lacorte, and argued that since the land was legally sold by the bank to respondent Icaca, then the sale thereof by the latter to the former is likewise valid.

Respondent Jose Icaca filed a separate Answer wherein he alleged, inter alia, that:

“2. x x x (W)hile it is true that he sold the property to the spouses Peregrino Lacorte and Adela Lacorte, he did so (i)n the honest belief and understanding that the spouses bought the same for the common good of all pursuant to the understanding/agreement he had with the said spouses and the plaintiffs and that he will allow them to buy back the property collectively from him x x x. (T)he said spouses assured him that they were buying the property not for themselves alone but for the benefit as well of the plaintiffs and this was also the understanding of the herein answering defendant when he signed the Deed of Reconveyance x x x. (H)ad he known it otherwise and were it not for the assurance of the spouses Peregrino and Adela Lacorte to the effect that the purchase of the property is for the collective use of all of them x x x the herein defendant would not have sold the property to them x x x. (T)he undersigned hav(e) no objection to the rescission and/or annulment of the Deed of Reconveyance x x x because in truth and in fact his intention was really to reconvey the questioned property to the plaintiffs and his co-defendants x x x.”[3]

In a decision dated November 29, 1991, the trial court ordered (a) the rescission of the deed of reconveyance executed in favor of respondent spouses Peregrino and Adela Lacorte, as well as the tax declarations issued in their names, and (b) Jose Icaca to sell the land in question to all the petitioners herein and private respondent spouses.[4] In so ruling, it declared that by reason of the aforesaid agreements, marked as Exhibits B and C, respectively, executed between respondent Jose Icaca and petitioner Simon Lacorte who acted in representation of the heirs of Maria Lacorte, which actually constitute a promise to buy and sell, there was bad faith on the part of respondent spouses in purchasing the land solely in their favor.

It also noted that the deed of reconveyance was executed within the period granted under Exhibits B and C for the heirs to collectively repurchase the land from Icaca. Moreover, it observed that if respondent spouses were truly buying the land in good faith for themselves and not for the other heirs, it was not necessary for respondent Adela Lacorte to ask petitioners to look for P7,090.00 which represents the balance and was apparently to be used as part of the purchase price. Finally, it concluded that petitioners had a cause of action against respondents by reason of the promise to buy and sell executed between the Lacortes and Icaca, which is reciprocally demandable pursuant to Article 1479 of the Civil Code.

In reversing the court a quo and ordering the dismissal of the complaint, respondent Court of Appeals ruled that petitioners have no cause of action against private respondents since the former were not parties either to the Deed of Reconveyance sought to be annulled or to the Deed of Absolute Sale executed between the bank and Jose Icaca. It applied the general rule under Article 1397 of the Civil Code to the effect that an action for annulment of contract may be instituted only by those who are principally or subsidiarily obliged thereby.

While it recognized the exception that one who is not principally or subsidiarily bound may ask for annulment if his rights are prejudiced by one of the contracting parties, respondent court nonetheless merely held that “prejudice on the part of the plaintiffs has not been established. If at all they are now asking for the annulment of the Deed of Reconveyance, it is probably because they are supposedly heirs of Maria. It has not been proven either to what extent the Deed of Reconveyance should be nullified, even on the assumption that plaintiffs’ rights have been prejudiced.”[5]

Hence this petition, wherein the primary issue posed for resolution is whether or not herein petitioners are entitled to bring an action for annulment and/or rescission of the Deed of Reconveyance entered into by respondent spouses Peregrino and Adela Lacorte with Jose Icaca.

On this score, it becomes inevitable to initially determine the nature of the agreements entered into by petitioners with Icaca which are the bases of petitioners’ claim to the property. Because of its importance, the Agreement dated October 17, 1983 is hereunder quoted verbatim and in full:

## “A G R E E M E N T

17 October 1983

### TO WHOM IT MAY CONCERN:

This is to certify that I, JOSE I. ICACA, of legal age, married, a resident of Ramos Street, Lezo, Aklan, after an agreement has been made to the heirs of Maria Lacorte, represented by her son Simon Lacorte, also of legal age, likewise a resident of Lezo, Aklan, do hereby agreed the following conditions:

That with the consent of the said Simon Lacorte and his co-heirs, I have been authorized directly to purchase their foreclosed land which was mortgaged to the Rural Bank of Malinao, Aklan;

That we further agreed that within the period of one year beginning this date October 17, 1983, I am giving them the chance and privilege to recover and repurchase the said land in the purchase (illegible) of TWENTY ONE THOUSAND FIVE HUNDRED PESOS (P21,500.00) plus TWELVE THOUSAND NINETY (P12,090.00) PESOS of their recent mortgage debt amounting in total of THIRTY THREE THOUSAND (P33,090.00) PESOS.

IN WITNESS HEREOF I have hereunto set my signature this 17th day of October 1983 at Lezo, Aklan, Philippines.

(Sgd.) JOSE I. ICACA

(Sgd.) SIMON LACORTE

### IN THE PRESENCE OF:

(Sgd.) ROSARIO I. LACORTE

(Sgd.) CIRILA L. ANGELES”[6]

A contract is presumed to be an equitable mortgage when the vendor remains in possession as lessee or otherwise, or when upon or after the expiration of the right to repurchase another instrument extending the period of redemption or granting a new period is executed[7] In the case at bar, it is not disputed that petitioners’ mother, Maria Lacorte, and two of her children, herein petitioners Rosario and Jerosalina, remained in possession of the property despite the existence of the Agreement hereinbefore quoted, and they continue to do so up to the present time.[8] No less than respondent Adela Lacorte admitted these facts in her testimony.

Further, prior to the expiration of that Agreement of October 17, 1983, another one was entered into between the same parties extending the period of redemption up to and until March, 1987. Thus, in the second Agreement dated October 16, 1984, it was stipulated that:

“Although the period granted to the heirs of Maria Lacorte to buy back the land from me is due to expire tomorrow in accordance with the agreement dated October 17, 1983, I, Jose I. Icaca, do hereby give extra period to recover and repurchase the property from me until March 1987.”[9]

That the contract is an equitable mortgage is likewise evident from the words used in the Agreement itself, that is, that the heirs of Maria Lacorte shall pay as part of the purchase price the amount of “TWELVE THOUSAND NINETY (P12,090.00) PESOS of their recent mortgage debt.” Apparently, the parties decided to put in writing an earlier mortgage made by Maria Lacorte in favor of Jose Icaca.[10] The existence of such mortgage even provides a logical explanation for the course of action taken by Simon Lacorte in making special arrangements with Icaca so that the latter could buy the foreclosed property from the bank.

More importantly, the document executed between Adela Lacorte and Jose Icaca is entitled “Deed of Reconveyance” wherein the latter bound himself to “transfer, deliver and reconvey” the parcel of land described therein. The term “reconvey” means to convey back or to former place; to transfer back to former owner, as an estate, and “reconveyance” being a transfer of realty back to the original or former grantor.[11] A contract of reconveyance, therefore, presupposes the existence of a prior agreement wherein a party to whom property was conveyed undertakes to reconvey the same to the other party under certain terms and conditions.

Such agreements may be in the nature of a contract of sale with a right of repurchase or an equitable mortgage. In fine, a contract of reconveyance is but a necessary consequence of the exercise of a party’s right to repurchase the property subject of a contract of sale with a right of repurchase or of an equitable mortgage. This particular attribute of the Deed of Reconveyance executed by respondent Icaca gives further weight to our finding that the Agreement of October 17, 1983 is indeed a contract of equitable mortgage.

Considering that Simon Lacorte executed the Agreement with Jose Icaca for and in behalf of all the heirs of Maria Lacorte, it stands to reason that any payment made by one or some of the heirs will logically and definitely have to likewise inure to the benefit of all the heirs. This notwithstanding, respondent spouses insist that they are the exclusive owners of the subject property because they were the ones who paid for it and that it was never intended that they will buy it for and in behalf of the other heirs. They further deny any knowledge of and participation in the Agreement dated October 17, 1983.

The argument is, unfortunately, specious. The records abound with facts and circumstances which reveal otherwise, as we shall demonstrate seriatim.

1. The initial payment of P26,000.00 was made on November 4, 1984, immediately after the Agreement of October 16, 1984 extending the redemption period was executed. The balance of P7,090.00 was paid only in February, 1987 when the Deed of Reconveyance was executed, which was well within the extended period granted to herein petitioners. If respondent spouses really knew nothing about the previous agreements with Icaca, it is an incredible accident that the dates of payment of the purchase price coincided quite closely with the periods stipulated by the parties. And, if ever there was any other agreement entered into exclusively between respondent spouses and Jose Icaca, the records are completely bereft thereof and respondent spouses conveniently failed to give any explanation therefor. Indeed, it is highly improbable that, sine stipulatio, Icaca would still have accepted payment of the balance despite the lapse of a long period of time, contrary to the ordinary and normal course of things.

2. Respondent Adela Lacorte claimed that she informed herein petitioners about the sum of P26,000.00 she had paid to Jose Icaca. According to her, she did that on purpose because she wanted petitioners to help her raise the amount necessary to pay the balance of the purchase price.[12] If what she alleges is true, then it is perplexing why she would still ask for money from petitioners and thereby involve them in the contract with Icaca although that was supposed to be for respondent spouses exclusively.

3. Adela Lacorte likewise admitted that her mother-in-law and two of herein petitioners remain and continue to be in possession of the property even after the sale thereof to Icaca. The only plausible and explicative reason for this is that petitioners were merely enforcing the rights vested in them under those aforementioned agreements with Icaca.

4. Also, by her own admission, Adela Lacorte knew that petitioners were very interested in redeeming the property from Icaca. On the witness stand, she stated that when she met with Icaca to negotiate for the repurchase of the property, she was accompanied by both her husband and petitioner Rosario Lacorte.[13] It will be recalled that Rosario Lacorte is one of the petitioners who has been continuously occupying the subject land from the time

it was still owned by Maria Lacorte up to the present. Logically, it is Rosario Lacorte who, among the heirs, is most interested in regaining ownership of the property. Thus, Adela Lacorte cannot make it appear that Rosario's presence in that meeting was inconsequential; on the contrary, Adela's close contact with petitioners during the negotiations is clear proof that she was privy to the agreements between petitioners and Icaca.

5. Petitioner Simon Lacorte testified that they were the ones who negotiated with the bank for the reduction of the redemption price from P45,000.00 to P21,000.00. After the bank had agreed to their proposal, Simon Lacorte immediately consulted with Icaca, to whom the land had also been mortgaged for P12,500.00, on the possibility of the latter paying the redemption price while petitioners still did not have the money to buy back their property. Icaca acceded and, consequently, an agreement was executed between the parties[14]

Simon Lacorte further explained that his brothers and sisters agreed to make arrangements with the bank, except respondent Peregrino who merely said that it was up to them.[15] Apparently, respondent spouses were ineptly not interested in redeeming the property[16] and refused to cooperate with petitioners for that purpose.[17] They took interest and cooperated only after the redemption price was considerably reduced by the bank through the joint efforts of herein petitioners. These facts sufficiently prove that respondent spouses were fully aware of the dealings and arrangements made by petitioners with the bank and Icaca for the redemption of the property, otherwise they could not have known about the particulars thereof.

All told, we are not persuaded by respondent spouses' pretension that they were oblivious of the existing agreements between petitioners and Icaca when they paid for the land in question. Besides, it would be downright unfair for petitioners not to gain anything after all their efforts and the trouble that they had gone through precisely to preserve and retain ownership of the property within the family.

One more thing. The case records irresistibly reveal that the real intention of Icaca was to reconvey the land to all the heirs of Maria Lacorte. This fact is supported by both the documentary evidence on record and the uncontroverted testimony of Icaca himself, to wit:

"Q: You said, you sold the property in question to the defendant herein Peregrino and Adela Lacorte before the document was executed, did they approach you telling or (sic) intend to acquire the property?

A: Only Simon.

Q: How about Peregrino and Adela, did they not go to you?

A: No, they did not.

Q: Can you please tell the Honorable Court, how come did you sold (sic) the property to Peregrino and Adela Lacorte?

A: Actually, I don't intend to sell the property because I pity them and because what we agreed with Simon and because they are brothers, I was thinking that they have an agreement already that whoever of them can afford to buy the property, I will sell it to them.

X X X

Q: When you said that you have no intention of selling the property to the defendants Peregrino and Adela Lacorte, could you please tell this Honorable Court to whom do you intend to sell the property?

A: My agreement with Simon is, whoever of the brothers and sisters can afford to buy the property, I will sell it to them. That is our agreement.

X X X

Q: When you said them, to whom do you refer?

A: To any brothers and sisters of the children of Maria Lacorte.”[18]

On cross-examination, Icaca clarified and emphasized that he sold the property not to just one person but to the whole family.[19] Thus:

“Q: The Court is asking you, if you understood selling it to spouses Adela and Peregrino Lacorte not the children of Maria Lacorte who are Simon, Rosario, Severino, Jerosalina and Cirila.

A: I did not know that that is their intention your Honor. Only I understood that I was selling the property to the brothers and sisters.

Q: Why when Adela Lacorte made you sign this document, what did she tell you?

A: That Adela Lacorte told me your Honor that she will tell them that they had already acquired the property.

Q: You did not find it strange after reading this document that you are selling it, the property to Adela and Peregrino Lacorte, instead of Peregrino Lacorte and his brothers and sisters who are the children of his mother?

A: I did not understand that that document is only for the spouses because I thought that it’s for the brothers and sisters as per agreed (sic) that whoever is capable of buying back the property, would buy it for everybody.”[20]

Such intention of Icaca is more in accord with the basic characteristic of a contract of reconveyance which, as earlier stated, involves a transfer of realty back to its original owner. Petitioners’ mother, Maria Lacorte, is admittedly the original owner of the subject lot; Adela Lacorte does not claim otherwise. This only goes to show that the reconveyance was really intended for all the heirs of Maria Lacorte. Besides, it was Adela Lacorte who prepared the Deed of Reconveyance, hence any ambiguity therein must be resolved against her and in favor of Jose Icaca who merely signed it.

In the mind of this Court, what probably motivated respondent spouses to appropriate the property for themselves is because petitioners could not raise the money needed to pay Jose Icaca. This hypothesis finds substance in the testimony of Adela Lacorte which is very revealing:

“Q: It did not occur to your mind (sic) to again tell the plaintiffs to accompany you because you are already paying Mr. Icaca the amount of P26,000.00?

A: It enter(ed) my mind but because they have no money to add to that P26,000.00, I got mad and I decided to go alone.”[21]

In order to judge the intention of the contracting parties, their contemporaneous and subsequent acts shall be principally considered.[22] In light of the foregoing disquisition, the inevitable conclusion is that it was really the intention of the parties that the subject parcel of land shall be reconveyed to all the heirs of Maria Lacorte, hence the payment made by Adela Lacorte should be deemed to inure to the benefit of all the aforementioned heirs. Consequently, herein petitioners necessarily stand to be prejudiced by the Deed of Reconveyance executed solely in favor of Adela Lacorte since they should have been included as parties thereto.

Article 1359 of the Civil Code provides that when, there having been a meeting of the minds of the parties to a contract, their true intention is not expressed in the instrument purporting to embody the agreement by reason of mistake, fraud, inequitable conduct or accident, one of the parties may ask for the reformation of the instrument to the end that such true intention may be expressed. If such mistake, fraud, inequitable conduct, or accident has prevented a meeting of the minds of the parties, the proper remedy is not reformation of the instrument but

annulment of the contract.

There is no doubt that petitioners are entitled to bring an action to annul the contract because they stand to be prejudiced by the enforcement of the Deed of Reconveyance. As to whether or not they also have the right to ask for reformation of the instrument, we hold in the affirmative. This is because petitioner should really have been made parties to the Deed of Reconveyance were it not for the fact that Adela Lacorte had fraudulently excluded their names therefrom. From the start of the negotiations with the bank and, later, with Jose Icaca, petitioners have actively participated. They remained in possession of the land, gathered fruits therefrom, and never for a moment relinquished their rights thereover.

Adela Lacorte explicitly recognized such right when she sought the help of petitioners in raising money to pay for the land. It was clear that, from the very start, petitioners were already recognized as actual parties to the prospective reconveyance. What deluded Jose Icaca, and prevented him from doubting the veracity of the Deed of Reconveyance brought to him by Adela Lacorte for signature, was the latter's misrepresentation that she was purportedly acting for and in behalf of all the heirs of Maria Lacorte.

Since petitioners should in truth and in fact be parties to the Deed of Reconveyance, they are entitled to the reformation of the contract in order to reflect the true intention of the parties. In fact, Jose Icaca, who is the real injured party in this case because of the fraud committed on him, has acquiesced to the cancellation of the contract. There is nothing to prevent the reformation of the instrument[23] as has in effect been granted by the court a quo by way of an additional or alternative relief.

We accordingly declare that what is necessary is only a reformation of the Deed of Reconveyance by reflecting therein the names of herein petitioners as additional parties thereto, since there has been a meeting of the minds on the object and the consideration. Herein petitioners need merely contribute pro rata to the payments and expenses as may have heretofore been made or shall hereafter be involved in implementing the relief sought by and granted to them, the details of which shall be determined by the trial court.

WHEREFORE, the judgment appealed from is hereby REVERSED and SET ASIDE, and the judgment of the Regional Trial Court, Branch 1, of Kalibo, Aklan, is hereby REINSTATED, subject to the modifications regarding the implementation thereof by the court a quo on the basis of the rationale therefor as herein discussed.

**SO ORDERED.**

Melo, Puno, Mendoza, and Martinez, JJ., concur.

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[1] CA-G.R. CV No. 36650, Former Eighth Division, with Justice Bernardo LL. Salas as ponente, and Justices Jaime M. Lantin and Alicia Austria-Martinez concurring.

[2] The complaint was filed by the Citizens Legal Assistance Office and petitioners are now represented in this Court by the Public Attorney's Office, both of the Department of Justice.

[3] Original Record, 12-13.

[4] Ibid., 133-139; per Judge Marietta J. Homena-Valencia.

[5] Rollo, CA-G.R. CV No. 36650, 87.

[6] Exhibit B; Folder of Exhibits, 2.

[7] Article 1602, Civil Code.

- [8] TSN, February 5, 1991, 5.
- [9] Exhibit C; Folder of Exhibits, 3.
- [10] TSN, April 17, 1991, 3, 15.
- [11] Words and Phrases, Vol. 36A, 35.
- [12] TSN, February 5, 1991, 5, 8; July 31, 1990, 12, 18.
- [13] TSN, February 5, 1991, 7.
- [14] TSN, May 24, 1990, 4-7.
- [15] Ibid., id., 4.
- [16] TSN, February 5, 1991, 3.
- [17] TSN, May 29, 1990, 10.
- [18] TSN, April 17, 1991, 9-12.
- [19] Ibid., id., 16.
- [20] Ibid., id., 19-20.
- [21] TSN, February 5, 1991, 8.
- [22] Article 1371, Civil Code.
- [23] Article 1362. If one party was mistaken and the other acted fraudulently or inequitably to disclose their real agreement, said instrument may be reformed.

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